Three Essays on Sustainable Investing in Private Wealth Management: Barriers for Sustainable Investing in the Cognition and Decision Making Processes of Private Wealth Holders and Investment Advisors

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The Faculty of Economics, Business Administration and Information Technology of the University of Zurich hereby authorizes the printing of this dissertation, without indicating an opinion of the views expressed in the work.

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Author Comment

The secretive realm of today's substantially concentrated private wealth has largely been off-limits for scholarly investigation. This is despite the substantial influence that the deployment of private wealth has on our society, economy, and the natural environment.

Against this backdrop, this dissertation aims to provide first insights into the dynamics that shape whether the owners of private wealth and their advisors consider ethical, social, environmental or governance aspects in wealth management decisions.

The dissertation identified a substantial interest in such "sustainable investing" approaches by the owners of private wealth – together with important barriers that can limit the realization of this interest in practice; barriers such as private investors' common association of sustainable investing with above-average volatility, and advisors that sense their clients' interest but that withhold information due to their narrative of sustainable investing as a complex "nuisance".

As such, the goal of the dissertation is to motivate and facilitate the development of theoretical insights and practical mechanisms to drive the deployment of private wealth for the good of the owners of that wealth, society and the natural environment, and not against it.

"As long as the incomes of the various classes of contemporary society remain beyond the reach of scientific inquiry, there can be no hope of producing a useful economic and social history."

First sentence of "Le movement du profit en France au 19e siècle" by Jean Boivier, Francois Furet, and Marcel Gilet, 1965, Paris: Mouton[1]

[1] Translation by Thomas Piketty (2014), *Capital in the Twenty-First Century*, p. 575

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Chapter I - Introduction

1 Introduction

1.1 Structure of the Introduction

The introduction chapter is structured in four sections.

The first section outlines the motivation and the research question of this dissertation. Both are based on a prevalent gap between the potentially high suitability of sustainable investing for the holders of substantial private wealth, and the low level of private capital that is invested in sustainable investing; a phenomenon which I call the "Sustainable Investing gap".

The second section of the introduction outlines the context of this dissertation, namely the topics of private wealth concentration and sustainable investing. This section also illustrates the "Sustainable Investing gap" phenomenon and why it deserves the provision of explanations, as "It might at first seem needless to say that before social facts can be "explained", it is advisable to ensure that they actually are facts. Yet, in science as in everyday life, explanations are sometimes provided for things that never were." (Merton, 1959, p. 21).

The third section provides a summary of the three research papers that are included in this dissertation. In particular, I present a brief overview on each paper, the applied structure and research design, as well as main findings and contributions.

The fourth section concludes the introduction chapter with a brief conclusion.

1.2 Motivation and Research Question of the Dissertation

This dissertation is motivated by an observed phenomenon that combines two contemporary topics that are of significance for scholars and practitioners alike.

On the one hand, this dissertation concerns the concentration of private wealth, which is partially based on a trend of increasing income inequality and higher returns on capital than on labour (see, e.g., Piketty, 2014; Saez & Zucman, 2014). The focus of this dissertation is not, however, private wealth concentration itself, but how this capital is deployed.

On the other hand, this dissertation relates to the sustainable investing approach. Sustainable investing pertains to the integration of traditional financial aspects and environmental, social, corporate governance or ethical aspects in investment decisions, in order to achieve financial, non-financial, or combined returns (Eurosif, 2014; Sandberg, Juravle, Hedesström, & Hamilton, 2008). This dissertation is not focused on the sustainable investing process itself, however, but on the determinants of private wealth being allocated to sustainable investing.

Further, this dissertation is based on the argument that sustainable investing currently appears to be surprisingly underrepresented in the portfolios of private investors, despite its substantial potential to bring merit to wealth holders, investment advisors, firms, society and the natural environment. I call this phenomenon the "Sustainable Investing gap".

As such, this dissertation explores barriers for sustainable investing in the management and deployment of private wealth, in particular in regard to the cognition and decision-making processes of private wealth holders (Paper I) and their investment advisors (Paper II and III). The research question of this dissertation is as follows:

> **Research question:** "*What barriers arise in the cognition and the decision-making processes of private wealth holders and their advisors in the context of sustainable investing?*"

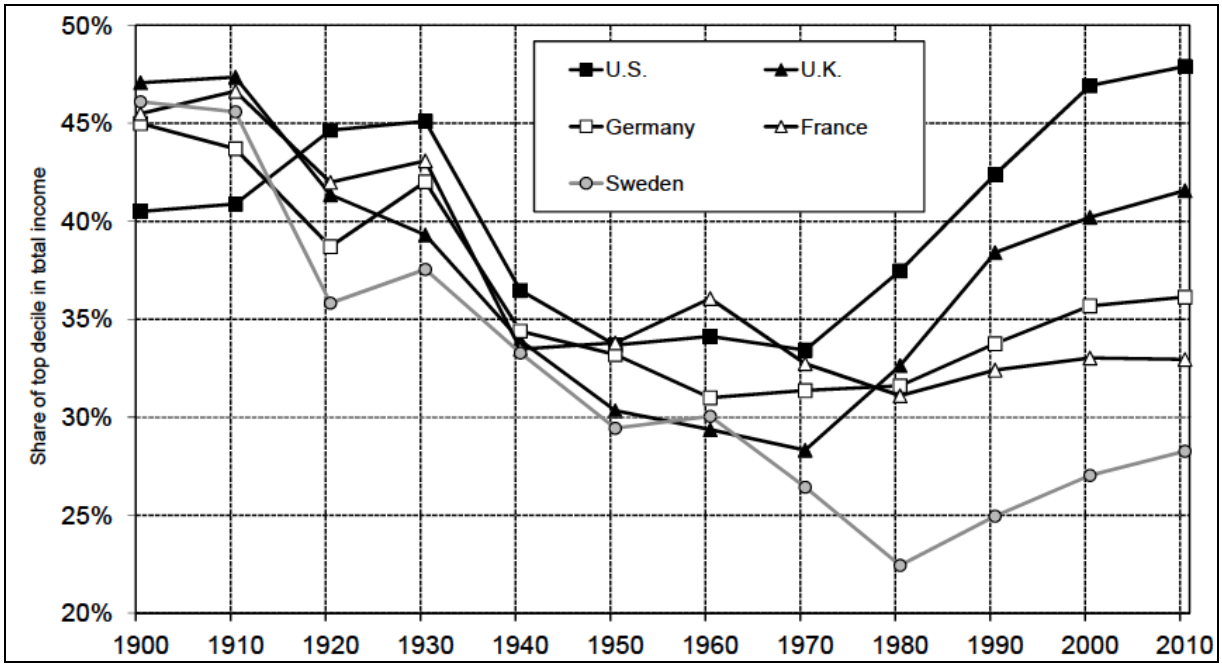
Therefore, the approach of this dissertation is to "start with phenomena in the world that are worth explaining" (Davis, forthcoming, p. 12). This is illustrative of "a shift in orientation from paradigm-driven work to problem-driven work" (Davis & Marquis, 2005, p. 323) which occurs in the body of organization theory, a literature which this dissertation draws from.

1.3 Background on Private Wealth Concentration and Sustainable Investing

1.3.1 Trend and Magnitude of Private Wealth Concentration

Income Inequality. Following a general decline in income inequality from 1910 to 1970, income inequality increased substantially in Anglo-Saxon countries, Europe and much of the developing world (Atkinson, Piketty, & Saez, 2011). This trend has led to a substantial inequality. By the year 2010, the top 10% of the population in terms of total income received more than 45% of total income in the U.S., 40% in the UK, and 35% in Germany (Piketty, 2014). This trend is robust across countries, albeit regional differences exist, with a particularly strong pronunciation in Anglo-Saxon countries, as illustrated in Figure 1.

Figure 1: Income share of top 10% of population in terms of total income in Europe and in the U.S.



Source: Technical appendix to the book "Capital in the 21st century" by Thomas Piketty (i.e., Piketty, 2014)

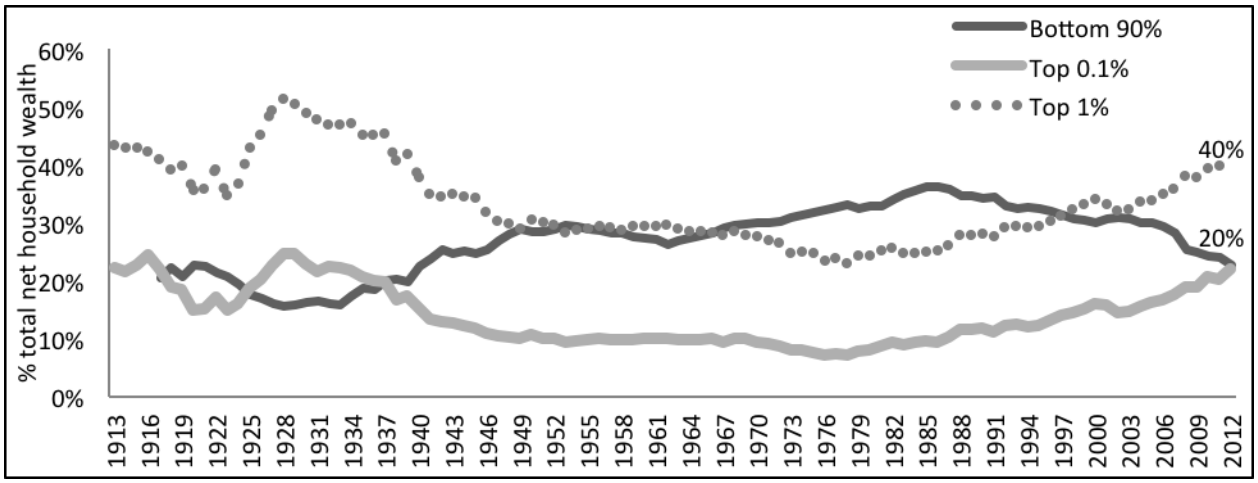
Reasons that appear to drive this development commonly relate to an increased importance of financial markets and financial assets in society, or the "financialization" thereof (Krippner, 2005, p. 174). The increased significance of financial markets and ownership is reflected by,

for example, legislation that benefits wealth holders (as the recipients of dividends and investment returns) over workers (Piketty, 2014), or an asymmetrical increase in absolute and relative incomes in the finance industry (Bakija, Cole, & Heim, 2012).

In sum, a body of research documents a substantial and increasing inequality in the distribution of income within populations. Incomes accumulate over time and build up household wealth. Thus, income inequality also drives inequality in household wealth, which perhaps has even more pronounced and relevant impacts on economies and societies.

Household Wealth Inequality. Beyond the debate on income inequality, even more pronounced is the asymmetry in the much-related distribution of household wealth (Kopczuk & Saez, 2004; Piketty & Saez, 2003). The NGO Oxfam calculates that in 2014, the worlds 85 richest individuals owned as much as the poorest half of the global population, with the concentration accelerating as these 85 people grew richer by USD 668 million each day (Oxfam, 2014, p. 8). More specifically in the U.S., for example, assessments of income tax data (including, for example, capital gains tax) indicate that by 2012, the top 0.1% of households governed 20% of total net household wealth, which is as much of total net household wealth as the bottom 90% owned at the same time, while the top 1% held 40% of total net household wealth (Saez & Zucman, 2014). Figure 2 reproduces the results of the aforementioned study by Saez and Zucman (2014).

Figure 2: Percentage of total net household wealth in the U.S.



Source: Technical appendix to the NBER Working Paper No. 20625 "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data" by Emmanuel Saez and Gabriel Zucman (i.e., Saez & Zucman, 2014)

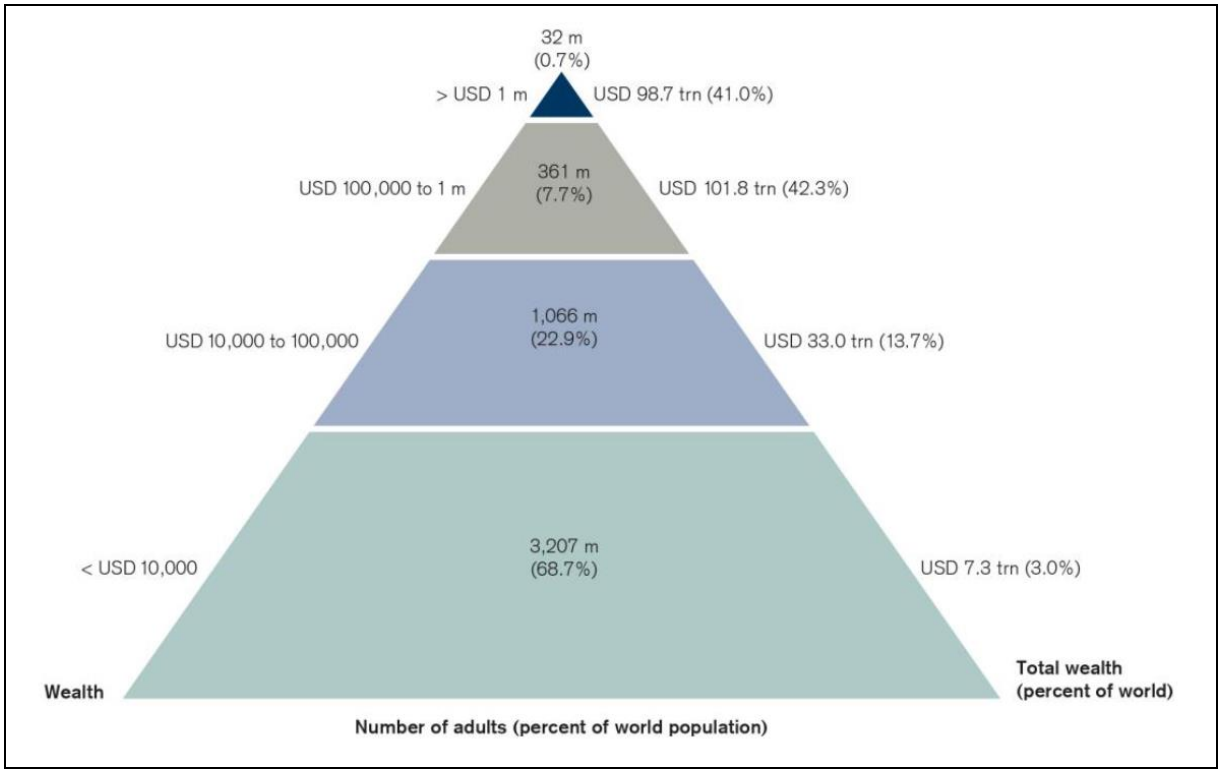
The topic of unequal wealth distribution receives substantial interest beyond the scholarly debate. Along economic disadvantages of high levels of wealth inequality and wealth monopoly, the business magazine The Economist went as far as to infer a cultural shift; a shift wherein this development "could presage the return of an 18th century inheritance society, in which marrying an heir is a surer route to riches than starting a company" (2014, p. 71). The argumentation is supported by wealth inequality data on the U.S., U.K., Germany and France dating back as far as 1700, which indicates that today's ratio of wealth inequality "appear to be returning to the high values observed in Europe in the eighteenth and nineteenth centuries" (Piketty & Zucman, 2014, p. 1255).

Thus, and against common belief, perhaps, "extreme economic inequality has exploded across the world in the last 30 years", instead of going down, and "seven out of 10 people live in countries where the gap between rich and poor is greater than it was 30 years ago" (Oxfam, 2014, p. 8).

In sum, a body of evidence points to a substantial and increasing concentration of private wealth amongst a small group of private wealth holders. Representatives of the private wealth management industry refer to the holders of such private wealth as High Net Worth Individuals; such private wealth holders and their advisors are in the focus of this dissertation.

The Private Wealth Management Client Segment of High Net Worth Individuals. In the private wealth management industry, private wealth holders that have more than one million USD in freely investable assets (i.e., excluding assets such as real estate property) are commonly referred to as High Net Worth Individuals (HNWIs), or Ultra High Net Worth Individuals (UHNWIs) if they govern more than USD 30 million (Capgemini & RBC Wealth Management, 2012). About 32 million individuals, which is 0.7% of the world population, represent the private wealth management customer segment of HNWIs and UHNWIs; together, these individuals hold a total of USD 99 trillion in private household wealth, which is 41% of global private household wealth (Shorrocks et al., 2013). The distribution is displayed in Figure 3.

Figure 3: Number of adults and percentage of world population per wealth category



Source: Databook to the "Global Wealth Report" by Anthony Shorrocks, James Davies and Rodrigo Lluberas (Shorrocks et al., 2013)

In terms of further characteristics of this segment, wealthy private investors tend to be, for example, older than the general population and better educated (see, e.g., Fidelity Investments, 2012). Wealthy private investors often rely on investment advisors in their investment decision making, which in turn generate significant revenues from advising their wealthy customers (West, 2012).

Wealthy private investors are in a position to be particularly innovative and to align their investments with their personal interests, since they "have access to investments that are normally closed to smaller retail investors, and the freedom to move funds quickly without having to perform the extensive due diligence required by institutional investors or foundations" (Eurosif, 2012b, p. 7). In terms of their investment approach, wealthy private investors are often characterized as either venturous entrepreneurs or as "typically long-term investors whose aim is to preserve capital for the next generations to come" (Eurosif, 2012b, p. 7), and as such might be particularly interested in sustainable investing (Eurosif, 2010, 2012b).

This dissertation is not concerned with the topic of wealth concentration itself, but is interested in aspects that determine how the holders of substantial financial assets allocate their capital. Specifically, I explore this issue in the context of sustainable investing.

1.3.2 Sustainable Investing and the Sustainable Investing Gap

Definition. The term sustainable investing is often used interchangeably with the term responsible investing, or socially responsible investing, which leads to concerns that "there is no clear consensus of what this term means" (Berry & Junkus, 2013, p. 707). Sustainable investing is commonly understood as to "integrate certain kinds of non-financial concerns – variously called *ethical*, *social*, *environmental* or *corporate governance* criteria – in the otherwise strictly financials-driven investment process" (Sandberg et al., 2008). Investors that are interested in these approaches typically consider environmental, social, and corporate governance (ESG) aspects in their investment decisions, invest in specific industries (e.g., energy efficient appliances), or exclude firms that generate substantial revenues with the production of, or trade with ethically questioned products (e.g., tobacco), amongst other approaches that relate to similar aspects (Eurosif, 2014).

Financial rationale. A body of research develops the argument of a positive relationship between aspects that are related to the meta-frame of sustainability and the financial performance of firms or investment products. The foundation of the "it pays to be green" argument commonly evolves around societal demands and limitations to the availability of natural resources or the substantial impact of climate change on economies and firms (Pachauri, 2014); aspects that incur changes to the business sphere, which, then, provide firms with pressing challenges and promising opportunities (e.g., Hart & Milstein, 1999; Orlitzky & Swanson, 2008; Porter & Kramer, 2006; Russo & Fouts, 1997; Shrivastava, 1995).

On the level of individual firms, the financial performance implications of firm managers considering sustainability aspects in their business decisions have been show to be rather neutral or positive (Albertini, 2013; Orlitzky, Schmidt, & Rynes, 2003; Surroca, Tribó, & Waddock, 2010). On the level of financial investments, scholarly findings in regard to the financial implications of considering such aspects in investment decision-making vary (Orlitzky, Siegel, & Waldman, 2011), yet the financial performance that is achieved by the investment managers of mutual funds that consider sustainability aspects appears to be "not statistically different from the performance of conventional funds" (Renneboog, Ter Horst, & Zhang, 2008, p. 1).

Beyond assessments of past performance, however, the decisions of investors depend on their expectation of developments material to their investments in the future. The intensity of pressures on economies and firms that arise from changes of the natural environment are deemed to increase further (Pachauri, 2014). As such, the financial rationale for sustainable investing has gained support and legitimacy in financial markets and a growing body of practitioner publications outlines the current and future relevance of topics such as climate change for financial investments (e.g., GSIA, 2013; Mercer, 2009, 2012; Principles for Responsible Investment, 2014).

Extra-financial rationale. Beyond the rationale of improving the financial performance of investments through the consideration of sustainability aspects, a growing body of literature develops the argument that investors engage in sustainable investing due to extra-financial benefits, i.e. investors attach value to the opportunity to align their personal values with their investments. For example, investors might avoid cognitive internal conflicts as they refrain from investments that are not aligned with their personal values and beliefs and that would otherwise cause 'cognitive dissonance' (Festinger, 1957). In practice, this means that investors may decide to refrain from investments in firms that engage in business that the investors perceive as standing in conflict with their personal values or ethics, sometimes rejecting such investments even if they know that doing so might or will result a reduction of financial returns (e.g., Lewis, 2001; Rosen et al., 1991; Webley et al., 2001).

At the same time, the actual or hypothetical fulfilment of ethical objectives through investment decisions could provide investors with the advantage of positive emotions, such as the feeling of a 'warm glow' (Andreoni, 1990). More from this angle in regard to investors' desire to effect change, some authors refer to investors' attempts to influence firms by directing their investments to more sustainable firms, with the aim of contributing to sustainable development, both in regard to social or to environmental aspects (e.g. Beal & Goyen, 1998; Eurosif, 2012b).

Taking yet another angle, other authors such as Meir Statman argue for sustainable investing as a means of creating a preferable public image and social identity (Statman, 2004). Overall, then, multiple aspects of sustainable investing matter for different investors differently, including financial and extra-financial aspects at the same time (Bollen, 2007; Cheah, Jamali, Johnson, & Sung, 2011; J. Nilsson, 2009). This points to the possibility that sustainable investing is interesting for most private investors, while these individuals might

do so based on different attributes that they relate to sustainable investing (Paetzold & Busch, 2014).

Sustainable Investing gap. During the past decade, sustainable investing has experienced substantial attention in financial markets; the relative market share of sustainable investing has grow constantly to today between 5% and 10% of total assets under management (Eurosif, 2012a; US SIF Foundation, 2012). The growth of the relative markets share of sustainable investing is mainly driven by the capital allocation decisions of institutional investors (Eurosif, 2014). By the ear 2014, 1260 institutional investors that together represent USD 45 trillion in assets under management signed the United Nation's backed Principles for Responsible Investing, thereby committing to aspire for the integration of sustainability aspects into their internal investment processes and to encourage other investment firms that they work with to do the same (Principles for Responsible Investment, 2014).

Beyond institutional investors, however, sustainable investing remains largely neglected by private investors. Private investors govern a total of about USD 50 trillion in financial assets, which is comparable to the sum of USD 80 trillion that is managed by institutional investors (Çelik & Isaksson, 2014; Shorrocks et al., 2013). In terms of the relative share of sustainable investing assets under management, however, only 3% of the total financial assets that are invested in sustainable investing in Europe are controlled by private investors, versus 97% of sustainable investing assets under management that are controlled by institutional investors (Eurosif, 2014).

The magnitude of the observed relative underrepresentation of private investors in sustainable investing is a puzzle, in particular in light of two aspects. First, "surveys among private investors show that the [sustainable investing-] market potential is far from being realized" (Schrader, 2006, p. 200), since it appears that the majority of private investors is interested in the consideration of sustainability aspects in their investment decisions (Eurosif, 2012b; Gallup, 2009; Wins & Zwergel, 2014). Second, it appears that in particular wealthy private investors are interested in sustainable investing (Eurosif, 2008, 2012b). The engagement of wealthy private investors would imply substantially higher levels of private capital in sustainable investing, given the substantial economic significance of wealthy private investors, their particular ability to invest according to their personal interests, and their preferred access to investment products and advice (Eurosif, 2012b; Schrader, 2006; West, 2012).

Therefore, a gap can be observed between the engagement of private investors in sustainable investing, which could be expected to be high, and their actual engagement in sustainable investing, which appears to be low. I call this phenomenon the Sustainable Investing gap; a phenomenon whose exploration provides an important element for the motivation of this dissertation.

Barriers. The Sustainable Investing gap phenomenon points to the existence of barriers that keep private investors from deploying their capital in line with their interest in sustainability and sustainable investing. In research, a variety of different aspects have been mentioned as either supportive or limiting for the engagement of private investors in sustainable investing. Such aspects relate to, for example, investors consideration of the future needs and interests of their children or heirs (Eurosif, 2012b; Lewis, 2001), or the availability of information about sustainable investing products that is sufficient for investors to understand and engage in sustainable investing (Hummels & Timmer, 2004; J. Nilsson, Siegl, & Korling, 2012).

As outlined in detail in Paper I, however, existing findings on potential barriers that keep private investors away from allocating capital to sustainable investing are limited and often inconclusive (Paetzold & Busch, 2014). As such, a research gap exists in regard to explanations for the Sustainable Investing gap, i.e. barriers for the engagement of private investors in sustainable investing. As stated by Glac, "The question of "why do some investors practice [sustainable] investing and others don't?" is therefore still largely unanswered" (2008, p. 41). Barriers for private investors to engage in sustainable investing is a topic that "future research will have to examine in more detail" (Glac, 2008, p. 51).

This dissertation explores such barriers from different angles and through the application of different methods and theoretical concepts, as outlined in the summaries of the three research papers and in the research papers themselves, and broadens the scope of understanding for barriers to sustainable investing.

1.4 Overview and Summary of Research Papers

1.4.1 Paper I: Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors

Overview. The paper explores the cognition of wealthy private investors and related barriers in their decision-making process in the context of sustainable investing. We identify predominant barriers and develop a decision-making framework based on literature and the findings of a qualitative data analysis. The research question is: *What are the barriers that limit the engagement of private investors in SI?* With myself as the first author, the paper is co-authored with Professor Timo Busch. I presented and discussed previous versions of the paper at various academic conferences, including the United Nations Principles for Responsible Investing Academic Network Conference 2013 (Paris; recipient of the Honorary Mention award), and the 29th EGOS Colloquium 2013 (Montréal). The paper was published in the peer-reviewed journal Organization & Environment in December 2014.

Structure and Research Design. The argument of the paper is build up from a review of the literature on motivations and barriers for private investors in sustainable investing, which identifies a research gap in regard to barriers. We outline the extant range of topics and questions related to the natural environment to which the theory of planned behaviour (Ajzen & Madden, 1986; Ajzen, 1991) has been applied, and adapt the framework to sustainable investing based on literature on sustainable investing. We then outline the methodology and findings of our empirical analysis. Empirical data was gathered through semi-structured in-depth interviews with very different profiles of wealthy private investors. This allowed us to gather detailed insights about the understanding and interpretation of sustainable investing by the interviewees in their own and personal context (Kvale, 2007). The interview transcripts were coded and analysed based on the approach of analytic induction and iterative pattern matching (Eisenhardt & Graebner, 2007; Yin, 2003a). We identify three dominant combinations of aspects that form barriers for the engagement of private investors in sustainable investing, which we integrate into the theory of planned behaviour framework. We close by discussing implications for scholars and practitioners, as well as future research avenues.

Findings and Contributions. Our findings indicate a high level of either latent or explicit interest in sustainable investing amongst wealthy private investors. This adds empirical support and richness to the proposed existence of the Sustainable Investing gap phenomenon.

We then present our findings along the dimensions of the theory of planned behaviour model of decision making as adapted to the context of sustainable investing. We propose three predominant patterns that constitute barriers for the engagement of wealthy private investor in sustainable investing. These barriers limit the realization of the interest in sustainable investing amongst wealthy private investors. This provides potential explanations for the Sustainable Investing gap, and points to several avenues for future research as well as strategies that practitioners could employ to mitigate the identified barriers.

The first barrier pertains to the effect of interviewees' common association of sustainable investments with a high volatility in financial returns in combination with a short investment time horizon that is considered the individual investors. Investors that have a short investment time horizon appear to hold back from sustainable investing if they associate it with high volatility. This holds true even if the investor perceives the long-term financial and extra-financial rationale of sustainable investing as attractive. This finding adds to the emerging perspective in management research that the perception of time is an important component of the conditions for sustainable development, wherein the compression of time and space in financial markets runs against and violates the physical constraints of the natural environment (Bansal & Knox-Hayes, 2013; Gladwin, Kennelly, & Krause, 1995).

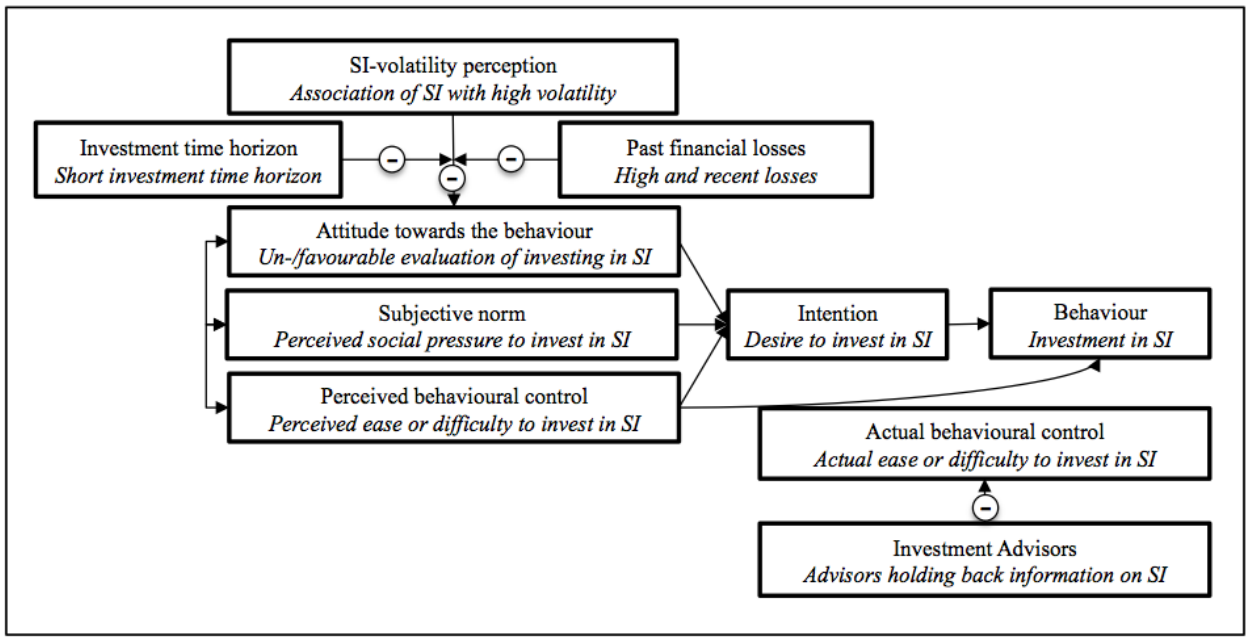
The second barrier pertains to the predominant effect of investors' perception of high volatility of sustainable investments in combination with recent financial losses. Investors that associate sustainable investing with high volatility appear to hold back from sustainable investing if they experienced recent financial losses. This finding, together with our finding on the important role of time, indicates interesting future research avenues that could bridge findings from behavioural economics to sustainable investing. This applies in particular to concepts related to prospect theory (Kahneman & Tversky, 1979), which we elaborate on in the discussion section of the paper. For practitioners, both the first and the second barrier indicate the importance of a careful communication with clients about the characteristics of sustainable investing, depending on the cognitive pre-disposition of their clients.

The third proposed barrier indicates that investment advisors withhold information on sustainable investing from their clients. We find instances where this holds true even in situations where clients actively ask for information that the advisor has been trained and motivated to disseminate. This provides detailed empirical evidence related to prior such

suggestions by Nilsson (2010), and Hummels and Timmer (2004), and answers to the specific call for research on the role of advisors particularly in the context of wealthy private investors by Schrader (2006). The financial value of the services that advisors provide for their clients is challenged (Hackethal, Haliassos, & Jappelli, 2012), and sustainable investing could allow advisors to strengthen their position as valuable partners for their clients (Eurosif, 2012b). Thus, our finding could motivate the exploration of the reasons behind the limiting behaviour of advisors in the context of sustainable investing.

The three barriers are consolidated and illustrated in the proposed decision-making framework of private investors in the context of sustainable investing based on theory of planned behaviour (Figure 4). We thus expand the literature on the application of theory of planned behaviour. We add to the emerging field of research on decision-making processes at the micro-level of the adoption of sustainable investing, as requested by, for example, Gond et al. (2011). Further, we answer to specific calls for research and more empirical richness in the context of investors that favour sustainable investing and those that might claim not do so (Juravle & Lewis, 2008), and for the expansion of the understanding of barriers for private investors in the context of sustainable investing (Glac, 2008).

Figure 4: Theory of planned behaviour framework adapted to sustainable investing (SI) and extended based on interview results



Note: The signs illustrate the proposed directionality of the relation, that is, (-) indicates a negative effect on the determinant; SI = sustainable investing

1.4.2 Paper II: More than Money: Why Investment Advisors Rarely Talk About Sustainable Investing

Overview. Paper II expands on the findings of Paper I, and investigates explanations for the Sustainable Investing gap specifically in regard to the role of investment advisors. The paper develops hypotheses that relate the level of advisors activity in communicating with wealthy private investors about sustainable investing to findings on people's behaviour in the context of the natural environment and the logic of real options. The hypotheses are tested with a regression model based on empirical data from a survey with investment advisors. The research question of the study is: *Do investment advisors neglect to communicate about sustainable investing in their client discussions, and, if so, why?* With myself as the first author, the paper is co-authored with Professor Timo Busch and Professor Marc Chesney. I have presented and discussed previous versions of the paper at the Academy of Management Annual Meeting 2014 (Philadelphia) and Society for Business Ethics Annual Meeting 2014 (Philadelphia; recipient of the Founder's Award). Following the acceptance of a manuscript proposal in September 2014, and the subsequent submission of the full paper in October 2014, the paper is under review at the peer-reviewed journal Annals of Social Responsibility.

Structure and Research Design. Following a review of the literature on sustainable investing and investment advisors, we develop nine hypotheses on the determinants of advisors' level of activity in communicating about sustainable investing in client discussions. We do so based on constructs that have been developed to understand peoples behavior in regard to decisions in the context of the natural environment or sustainable investing (e.g., Jansson & Biel, 2011; McLachlan & Gardner, 2004; Roberts, 1996; Rosen et al., 1991; Stern, Dietz, Abel, Guagnano, & Kalof, 1999). Further, we develop two hypotheses based on applications of the logic of real options to business decision-making and the natural environment (Busch & Hoffmann, 2009; Cortazar, Schwartz, & Salinas, 1998; Husted, 2005; Wang, Bernstein, & Chesney, 2012). We outline our methodology and the results of an OLS regression analysis of a survey with 95 investment advisors. We arrive at a model with good explanatory power towards aspects that relate to the level of advisors in communicating about sustainable investing with their clients. The implications are outlined in a discussion section and summarized in the conclusion.

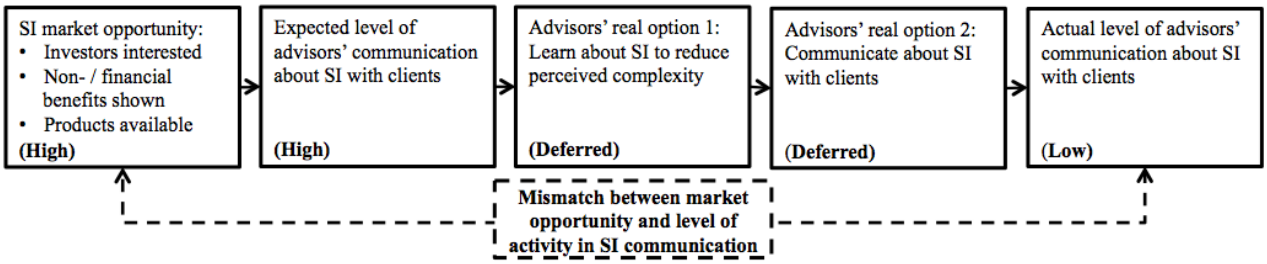
Findings and Contributions. Our results indicate a low level of advisors' engagement in communicating about sustainable investing with their customers relative to the market opportunity which sustainable investing might represent. Further, the findings of our analysis provide argumentative depth and quantitative evidence for the related indications of Paper I and other studies which were thus far based only on qualitative data (e.g., Schrader, 2006). Our model of aspects that can help explain differences in advisors' engagement in communicating about sustainable investing has strong explanatory power. This allows us to derive a variety of implications for scholars and practitioners, as well as avenues for future research.

For example, we do not find a significant relation between the volatility that advisors associate sustainable investing with and their level of activity in communicating about sustainable investing. This is, advisors that perceive sustainable investing as more/less volatile are not significantly less/more likely to communicate about sustainable investing with their clients. This is surprising and contrary to findings from behavioural finance that risk aversion lets individuals disproportionally refrain from investments that are perceived as volatile (Benartzi & Thaler, 1995; Kahneman & Tversky, 1979). Similarly, our finding is contrary to prior findings in literature on decision-making in the context of the natural environment (e.g., Karp, 1996; Schultz & Zelezny, 1999; Stern et al., 1999) and sustainable investing (e.g., Lewis & Mackenzie, 2000). Interestingly, perhaps, this finding on advisors is also contrary to the finding in Paper I that clients' association of sustainable investing with high volatility can importantly limit their engagement in sustainable investing.

Further, we find a substantial effect of the perception of sustainable investing as overly complex, and of the expected financial performance of sustainable investing. This leads to the conceptualization of advisors' communication on sustainable investing based on the logic of real options. The concept indicates that advisors' deferral of two embedded real options related to the gathering of information about sustainable investing leads to their perception of sustainable investing as complex. Advisors can be conceptualized as deferring the option to learn about sustainable investing in order to reduce the perceived complexity of sustainable investing. The result, then, is that advisors refrain from communicating about sustainable investing with their clients. This appears to hold true even if advisors perceive sustainable investing as a market opportunity, which infers a mismatch between the market opportunity that is represented by sustainable investing and advisors' level of activity in communicating about sustainable investing with their clients. As such, this conceptualization can provide an

answer to the behavior and the role of investment advisors in the context of the Sustainable Investing gap, as requested in Paper I and elsewhere (e.g., Schrader, 2006). The conceptualization also expands the application of the real options logic to the context of sustainable investing. It also indicates to practitioners the significance of structured training in the context of products that are perceived as complex not only by clients, but also by salespeople or other staff, such as in the context of sustainable investing. The proposed conceptualization is illustrated in Figure 5.

Figure 5: Advisors deferral of two embedded real options leads to a mismatch between the market opportunity of sustainable investing (SI) and the actual level of communication



Note: SI = sustainable investing

Lastly, we generalize our findings to salespeople generally that interact with customers in the context of potentially complex topics, such as sustainability. Our findings indicate that salespeople in the context of sustainability might react less strongly to their self-transcendent values (e.g., Karp, 1996; Schultz & Zelezny, 1999; Stern et al., 1999) or socio-demographic profile (e.g., Cheah, Jamali, Johnson, & Sung, 2011; Deni Greene Consulting Services, 2001; McLachlan & Gardner, 2004; Rosen et al., 1991; Schueth, 2003) than what prior research would suggest. Therefore, salespeople confronted with interesting yet complex products could systematically act differently than what would be in their interest and in the interest of the customers. This phenomenon might deserve further exploration beyond the context of sustainable investing, and for practitioners indicates the importance of the careful management of information in situations of high complexity in order to avoid sub-optimal outcomes for firms, clients, society and the natural environment.

1.4.3 Paper III: Complex Markets vs. Complex Customer Needs: How Investment Advisors' Narratives Enable or Constrain Sustainable Investing

Overview. This paper explores explanations to the Sustainable Investing gap with a focus on investment advisors. Like Paper II, this study is based on the insights of Paper I with regard to the important role of advisors, but it employs a different theoretical angle and methodology than those applied in Paper II. Paper III is based on organization theory. We take a social constructivist approach and explore the narratives that investment advisors use to understand their role in the context of sustainable investing. We also look at the potential effect of these narratives on the mainstreaming of sustainable investing. Based on interviews with advisors of wealthy private clients that work at investment firms that either lead or lag in sustainable investing, we identify two antagonistic *nuisance* and *savior* narratives that these advisors use. The paper raises the following research question: *What narratives do investment advisors use in the context of sustainable investing, and how do these narratives enable or constrain advisors to communicate with customers about sustainable investing?* With myself as the first author, the paper is co-authored with Emilio Marti. The paper has been accepted for presentation and discussion at the Social and Sustainable Finance and Impact Investing (SSFII) Academic
Conference 2015 (Oxford). I await the peer-reviewed responses to the submission of the paper for presentation and discussion at the Academy of Management Annual Meeting 2015 (Vancouver), the 31st EGOS Colloquium 2015 (Athens), and the 7th Annual ARCS Research Conference (Chicago). Depending on further feedback the paper will be submitted to an established peer-reviewed journal such as Journal of Business Ethics, or developed towards publication in a peer-reviewed A-level journal such as Organization Studies.

Structure and Research Design. We develop the theoretical background of the paper by reviewing the literature on sustainable investing, advisors, and organization theory concerning financial markets. We outline a research gap as scholars have explored financial markets actors other than advisors, and the outcomes of the interaction between advisors and their customers, but that the relation and interaction between advisors and their customers remains a "black box" that we aim to open.

We propose that the appropriate avenue to open the black box is to take a social constructivist approach (Berger & Luckmann, 1966) and to explore advisors narratives and the underlying surface stories (Pentland, 1999; Rhodes & Brown, 2005). The rationale of this approach is that actors use narratives in order to help themselves, their peers and customers to understand their role and their environment and how to act in that environment, i.e. "the ways in which individual narrators come to understand and articulate their social 'reality'" (Stalker, 2010, p. 4).

We then outline the data collection process and the applied iterative approach of analytic induction based on an exploratory multi-case study (Eisenhardt & Graebner, 2007; Gibbert & Ruigrok, 2010). We conducted interviews with 22 investment advisors of wealthy private investors. We covered a set of interviewee profiles at three different investment firms that either lead or lag in offering sustainable investing products. This enabled us to identify and to compare patterns in advisors' stories and narratives (Haack, Schoeneborn, & Wickert, 2012), and to explore predominant differences and similarities herein.

The findings include two prevalent narratives that either limit or support the communication of advisors about sustainable investing. Similar to Paper II, we identify an important role of complexity in the context of sustainable investing. We discuss implications for the mainstreaming of sustainable investing and beyond.

Findings and Contributions.

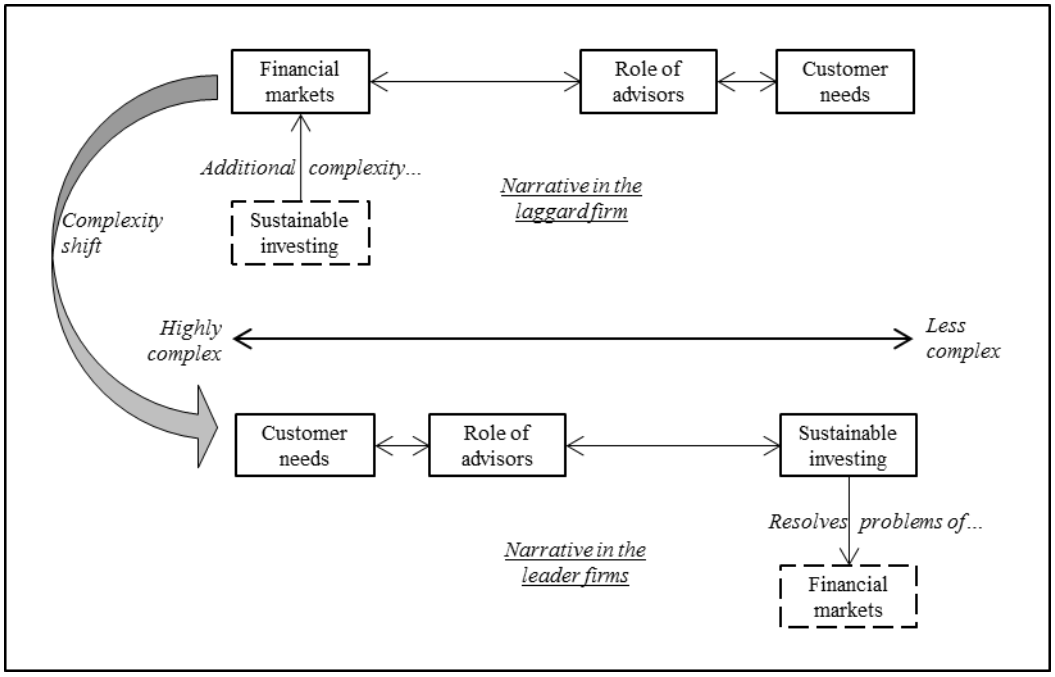
We find two antagonistic narratives, the *nuisance* narrative and the *savior* narrative, and their underlying stories that either support or limit investment advisors' appreciation of sustainable investing. The *nuisance* narrative is told by representatives of the laggard case. It consists of three consecutive stories that connect with each other as follows. First, the *complex markets* story explains financial markets as increasingly complex due to regulation and erratic market developments. The *simplistic customers* story describes wealthy private clients as mostly concerned with personal trust into their advisor and the efficient management of their wealth and related family-aspects. Thus, advisors focus on building long-term trusted relationships that extend across the families of their customers. Advisors ignore sustainable investing as the result of the *trusted salespeople* story, because advisors perceive sustainable investing as a 'Pandora's Box' of difficult questions, i.e. as a *nuisance*, that takes too much time to discuss and that challenges their technical efficiency.

Solely advisors at both leader cases, by contrast, used the *savior* narrative. The narrative starts with the *flawed markets* story. The story illustrates financial markets as overly

complicated by banks and advisors that aim to increase their financial profits at the expense of the client and the natural environment. The *savior* story, then, presents sustainable investing as the solution to problems of flawed financial markets, such as conflicts of interest between clients and advisors. Lastly, clients and advisors are illustrated as a likeminded *community* that collaborates to implement sustainable investing along the clients' complex interests and expectations of what sustainable investing ought to be in their personal context.

The description of advisors' narratives that is developed in this paper contributes to the emerging field of organization theory in financial markets (Davis, 2009a; Marti & Scherer, 2014; Munir, 2011). We open the black box of the interaction between advisors and their clients, and provide insights on how advisors manage and sustain their client relationships despite evidence for a limited financial advantage of their services for clients (French, 2008; Malkiel, 1973). In particular, we observe a substantial difference in the point of reference that advisors at leading or lagging firms choose as a source of complexity. The introduction of complexity helps investment firms create higher margins for their services (Célérier & Vallée, 2013). It appears that advisors and investment firms whether they are focused on sustainable investing or not are similar in that they require a point of "complexity" to justify their services. We observe that advisors at firms that lag in sustainable investing describe financial markets as highly complex, and their customers as simplistic. Advisors at leading investment firms, however, use a narrative that describes financial markets as excessively and unnecessarily complicated. They highlight the complex needs of customers instead. Thus, we document a "complexity shift" (Figure 6) in investment advisors' narratives, from complex financial markets to complex customer needs. To sell their services, either investment advisors have to position their services in relation to complexity, and it appears that if one source is dismantled, another one is taken up instead. Future research should analyze how narratives of complexity relate to complex financial products in the context of sustainable investing and beyond.

Figure 6: Complexity shift from complex financial markets to complex customer needs



We also add to the literature on sustainable investing (Markowitz, Cobb, & Hedley, 2012; Slager, Gond, & Moon, 2012). We illustrate strategies taken by advisors at firms that focus on sustainable investing as well as incumbents that have not yet succeeded to establish sustainable investing in their processes. Selling sustainable investing products might only be possible for investment firms whose investment advisors develop certain narratives beyond concerns of technical efficiency. Yet narratives might be an integrated component of the way a firm operates and its value chain; therefore narratives could be of limited transferability from leaders to laggards (Porter, 1985). Therefore, narratives that inhibit sustainable investing and that are difficult to modify or transfer could constitute a major impediment for large incumbents to increase the activity of their advisors with regard to sustainable investing. On a systemic level, this questions the prospects of mainstreaming sustainable investing amongst institutional and private investors (Dunfee, 2003). As such, the limitations that narratives in incumbent investment firms pose on the mainstreaming of sustainable investing can provide an answer to the Sustainable Investing gap. The exploration of the effect and mechanics of this limitation that is incurred by narratives, as well as strategies to mitigate or alleviate it, provide fertile ground for further inquiry.

1.5 Conclusion of the Dissertation

This dissertation is motivated by the under-representation of private investors and specifically wealthy private investors in sustainable investing, a phenomenon that I call the Sustainable Investing gap. I employ qualitative and quantitative methods and different theories to identify barriers for the engagement of wealthy private investors in sustainable investing. I explore barriers in the cognition and decision-making process of wealthy private investors (Paper I[2]), as well as the determinants of investment advisors level of activity in providing their wealthy clients with information about sustainable investing (Paper II and III[3]).

Paper I identifies a broad interest amongst wealthy private investors in sustainable investing, which points to a market opportunity for sustainable investing in private wealth management. The individuals' specific areas of interest in regard to sustainable investing vary, however, depending on their professional and personal background. This can hold true also for individuals who believe to know what sustainable investing entails and disdain this approach; they often routinely but unknowingly engage in sustainable investing practices. As such, we find that wealthy private investors have a limited understanding of sustainable investing. The provision of training and information for private investors is required to realize the latent market potential for sustainable investing. Further, through the application of the decision-making framework of theory of planned behaviour to the context of sustainable investing, we identify and conceptualize predominant barriers for the realization of private investors interest in sustainable investing.

One particular informational barrier is investors' predominant cognitive reduction of sustainable investing to its sub-topic of thematic investments (e.g., renewable energy), and the association with relatively high volatility of financial returns. This common misinformation is a barrier for individuals who have a short investment time horizon, or who experienced prior losses. These combinations point to the further exploration and application of insights from behavioural finance and prospect theory that relate to, for example, peoples' disproportionate aversion to losses and volatility, which is amplified by a short investment time horizon.

[2] Paper I is based on interviews with 10 wealthy private investors.

[3] Paper II is based on a survey results from 95 investment advisors at two private banks that, amongst other offers, provide sustainable investing products. Paper III is based on 22 interviews with investment advisors at three investment firms that either lead or lag in regard to the integration of sustainable investing into their private wealth management offering.

Another predominant barrier that is identified in Paper I pertains to investment advisors that refrain from advising their customers on sustainable investing. Based on the important role of advisors as a barrier for private investors, the cognitive barriers for advisors are explored in further detail in Paper II and Paper III. In Paper II, the expected volatility of sustainable investments appears not to be an aspect of substantial importance for advisors. This is surprising and contrary to prior research, including the findings of Paper I in regard to private investors, and opens up further research avenues related to behavioural economics.

It is noteworthy that Paper II and Paper III identify complexity as an important determinant of advisors activity in communicating about sustainable investing with their wealthy clients. Compared to advisors that are focussed on sustainable investing, it appears that the hesitation of those advisors that do *not* have that focus relates to their perception of sustainable investing as prohibitively complex. Such 'mainstream' advisors refrain from conversing about sustainable investing with clients even if it is perceived as a valuable pursuit. In Paper II we argue that this finding points to the logic of embedded real options as an avenue to conceptualize advisors' hesitation. Advisors appear to forgo the first real option to learn about sustainable investing ahead of client conversations, which would reduce the perceived complexity or 'cost' of communicating about sustainable investing. As a result, advisors also forgo the second real option to discuss sustainable investing in a client meeting. This would hold true even if a financial gain could be expected from doing so – if that gain is smaller than the opportunity cost that the advisor is willing to bear in the face of the as high perceived complexity of sustainable investing.

Also in regard to complexity, Paper III finds that advisors that focus on sustainable investing undertake a "complexity shift". These advisors actively deny that financial markets are complex, but refer to them as flawed to the detriment of private investors; contrary to the argument that is made by advisors who do *not* focus on sustainable investing. Instead, advisors that focus on sustainable investing attach high complexity to their customers' needs. This implies that both types of advisors rely on "complexity" to justify their role.

Further, in Paper III we identify substantial differences in the narratives that are employed by those advisors that are focused on sustainable investing and those that are not. Advisors that focus on sustainable investing regard this approach as the *savior*, or solution to many problems of financial markets. Advisors that are not focussed on sustainable investing employ the narrative of sustainable investing as a *nuisance* that is interesting in principle, but that challenges their operational efficiency, i.e. that takes too long to deal with, which is a substantial barrier for the consideration of sustainable investing by these advisors. Since

narratives might be difficult to transfer or modify, such prohibitive narratives that are predominantly employed by advisors at mainstream and incumbent investment firms might represent a substantial barrier for the potential mainstreaming of sustainable investing on a systemic level.

Overall, this dissertation provides answers to the initial question towards reasons behind the Sustainable Investing gap. Many of the aspects that are mentioned in this conclusion and throughout the research papers provide ample room for the further exploration of this research field, which is largely new, yet bears substantial significance for the further development of financial markets, economies, society and the natural environment.

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Chapter II – Research Papers

2 Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors

Abstract

Despite their apparent interest, private investors are surprisingly disengaged from sustainable investing, an observation that has received limited scholarly attention. This theory building study draws on the theory of planned behaviour to conceptualize the decision-making process of private investors towards sustainable investing. Findings from literature provide some insights but do not yield a comprehensive answer as to why private investors refrain from sustainable investing. Interviews with wealthy private investors led us to identify a generally high interest in sustainable investing and dominant barriers that prevent actual engagement. Barriers are the perception of high volatility within sustainable investments in combination with, first, a short investment time horizon and, second, recent financial losses. Third, we find that investment advisors withhold required information from their clients. We suggest a decision-making framework that facilitates a better understanding of the engagement of private investors in sustainable investing, and outline avenues for future research and implications for practitioners.

Keywords: sustainable investing, private investors, theory of planned behaviour, investment decision making, time orientation

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Introduction

Academic- and practitioner-oriented literature has paid significant attention to the incorporation of sustainability criteria into capital market investment decisions, or *sustainable investing* (SI; Global Sustainable Investment Alliance [GSIA], 2013). The amount of assets and the number of market participants engaged in SI has grown substantially worldwide, and accounts for approximately USD 14 trillion in investments (GSIA, 2013) and over 1,100 institutions committed to SI to date (UNPRI, 2013). However, in Europe, the region where SI is most prominent, institutional investors, such as pension funds, govern 97% of the total assets under management in SI while only 3% are held by private investors (Eurosif, 2012a; GSIA, 2013). Therefore, we disagree with claims that SI is a mainstream practice widely applied in capital markets (e.g., Eurosif, 2012a; Sievänen, Rita, & Scholtens, 2013). While this claim may hold true for institutional investors, it does not for private investors. For private investors there seems to be a dichotomy between interest in SI and actual engagement in SI. Empirical evidence shows that the majority of people, including wealthy private investors, are potentially interested in SI (Eurosif, 2012b; Gallup, 2009; Wins & Zwergel, 2014). However, surveys find that the SI-market potential amongst private investors is far from being realized (Schrader, 2006) as they face barriers that limit their engagement in SI. The observed asymmetry between the engagement in SI by institutional and private investors cannot be explained by the distribution of assets either, as institutions govern an estimated USD 80 trillion compared to USD 50 trillion in private financial wealth (Çelik & Isaksson, 2014; Shorrocks et al., 2013). In light of this "SI gap" – the gap between expected and actual engagement of private investors in SI – this study is motivated by the question, "*What are the barriers that limit the engagement of private investors in SI?*"

This study is a theory-building effort that aims to understand the reasoning behind the SI gap. It also provides answers to specific calls for research: As SI is still an emerging field, research on decision-making processes at the micro-level of SI adoption is required (Gond et al., 2011; Juravle & Lewis, 2008), especially on barriers (Glac, 2008) and wealthy private investors (Schrader, 2006). This paper develops a decision-making framework based on the theory of planned behaviour (Ajzen & Madden, 1986; Ajzen, 1991). This theory has proven useful to explain variations in individual behaviour in regard to, for example, environmental cognition (Henry & Dietz, 2012), sustainable behaviour in the business sphere (Lulfs & Hahn, 2014), or equity investments (East, 1993). By applying the extant SI literature to the

framework we show that some answers are given but explanations for the SI gap remain limited. In our empirical work, we conducted interviews with wealthy private investors that have more than one million USD in freely investable assets; a very small, secretive segment that governs 40% of total household wealth (Shorrocks et al., 2013). Our analysis points to a high interest in SI and three dominant barriers. Two barriers pertain to the perception of the volatility of SI. Investors who perceive SI as overly volatile were unlikely to engage in SI when they had a short investment time horizon or when they had experienced prior general losses. The third barrier relates to investment advisors that withhold SI information. Through the application of our exploratory empirical data we develop a framework that allows for a more fine-grained understanding of the decision-making process of private investors in the SI context.

The next section provides a background on sustainable investing, followed by the conceptual decision-making framework used in this study and the application of SI literature to it. Further sections outline the empirical method applied and present the interview results along the structure of the framework. We close with a discussion and conclusion.

2.1 Background: Sustainable Investing

The general understanding of what *sustainable investing* (SI) entails is to "integrate certain kinds of non-financial concerns – variously called *ethical*, *social*, *environmental* or *corporate governance* criteria – in the otherwise strictly financials-driven investment process" (Sandberg et al., 2008, p. 519). This can be achieved through a focus on certain industries (e.g., renewable energy), and likewise their exclusion (e.g., weapons, tobacco), or by the integration of environmental, social, and corporate governance (ESG) criteria into investment decisions. The advantage of our broad definition of SI beyond the 'responsible' or 'ethical' terminology is that it does not restrain the discussion to any narrow interpretation of SI. In practice, SI is a broad field of investment approaches. Most prominent are the application of exclusion criteria and the integration of ESG criteria in mainstream security selection. A much smaller tranche of assets is invested in more volatile industries or themes such as water or renewable energy, or in new asset classes such as microfinance (GSIA, 2013).

The SI literature is focused on the financial performance of SI on the level of firms or mutual funds (Gond et al., 2011). On the level of SI mutual funds, the risk-adjusted performance is found to be "not statistically different from the performance of conventional

funds" (Renneboog et al., 2008, p. 1). Also on the level of individual firms no negative performance implications are found (Albertini, 2013; Orlitzky et al., 2003; Surroca et al., 2010). Beyond financial performance, literature on non-financial aspects of SI discusses a range of arguments for engaging in SI, from a 'warm glow', or positive feelings, to ethical concerns and social status (e.g., Andreoni, 1990; Dunfee, 2003; Statman, 2004).

Regarding the segment of private investors, some studies cover investor characteristics, motivations, and, to a lesser degree, barriers of SI-investors, as well as comparisons with non-SI investors (e.g., Cheah, Jamali, Johnson, & Sung, 2011; Nilsson, Nordvall, & Isberg, 2010; Nilsson, 2009; Sandberg et al., 2008; Sandberg & Nilsson, 2011). However, there is no clear answer to the SI-gap. It remains unclear why some individual investors practice SI while others do not (Glac, 2008). The literature does not provide a clear picture of what the dominant barriers are, if and how barriers and other aspects relate to each other, and what kind of combinations matter.

Among private investors, particularly interesting are individuals with more than one million USD in freely investable assets, known as High Net Worth Individuals (HNWIs) (Eurosif, 2012b). HNWIs make up 0.7% of the world population, yet they govern more than 40% of global household wealth (Shorrocks et al., 2013), and thus can substantially contribute to more SI engagement. HNWIs appear to be interested in considering sustainability topics such as climate change in their investment decisions since they "are typically long-term investors whose aim is to preserve capital for the next generations to come" (Eurosif, 2012b, p. 7). Further, HNWIs are in a preferable situation to invest along their interests, since they "have access to investments that are normally closed to smaller retail investors, and the freedom to move funds quickly without having to perform the extensive due diligence required by institutional investors" (Eurosif, 2012b, p. 7). However, the observed SI gap persists, and although that puzzle lends itself to scholarly work, research into this group that is well-guarded by private banks and their advisors appears to be non-existent. Insights on HNWIs in the context of SI are therefore required (Schrader, 2006), which is where this study contributes with empirical work.

In light of the observed gaps in literature we undertake a corresponding theory building effort. We draw from literature and our empirical work with HNWIs to develop a decision-making framework for private investors´ engagement in SI based on the theory of planned behaviour, including a perspective on dominant barriers. Next, we outline the initial framework.

2.2 Theory of Planned Behaviour in the Context of Sustainable Investing

To predict behaviour, scholars focus on frameworks to link evaluative criteria to the formation of an intention towards a specific behaviour, coupled with the factors that limit the realization of that behaviour (Kalafatis, Pollard, East, & Tsogas, 1999). Most prevalent among these frameworks is the theory of planned behaviour (Ajzen & Madden, 1986; Ajzen, 1991). Theory of planned behaviour (TPB) has been found to provide high explanatory power and is useful in understanding a wide range of individual behaviours (Ajzen, 2014). In regard to sustainability, TPB is applied to understand the determinants of individual behaviour in the context of, for example, pollution reduction preferences (Cordano & Frieze, 2000), sustainable behaviour in the corporate sphere (Lulfs & Hahn, 2014), unethical behaviour (Chang, 1998), green marketing (Kalafatis et al., 1999), recycling (Ramayah, Lee, & Lim, 2012), water saving technology (Lynne & Casey, 1995) and environmental attitude (Kaiser, Wölfing, & Fuhrer, 1999). These studies demonstrate the suitability of TPB to explain and predict the variance in the behaviour of individuals in activities related to sustainability. However, they also show that different factors matter to understand behaviour in different contexts. In regard to the application of TPB in the general context of investment decisions – i.e., without a specific link to sustainability – East (1993) discusses the role of relatives and friends, easy access to funds, expected financial profit and the risk of the investment. Also in the investment context, Maula et al (2005) shows that whether individuals invest in new businesses owned by others is influenced by the personal familiarity with entrepreneurs, status as an owner-manager in a firm, perceived skills in starting a new business, and gender. We are not aware of an application of TPB to SI. In TPB, behaviour is predicted by intention, which is predicted by three determinants - *attitude towards the behaviour*, *subjective norm* and *perceived behavioural control*. We relate these *determinants of behaviour* of the TPB framework to SI, with the result shown in Figure 1.

Attitude towards the behaviour refers to the attributes, outcomes and consequences that are associated with the behaviour, i.e. if the behaviour is deemed attractive or not. For example, an individual might associate the behaviour of eating a chocolate cake with a great sweet taste and feeling satisfied, but also with calories and feeling guilty for becoming fat. Whichever association weighs more strongly will determine if attitude towards the behaviour is positive or negative. In investment decisions, associations that matter for the formation of a positive attitude are, for example, high financial profits and low volatility (East, 1993). In regard to SI, several studies point to financial performance, risk, and non-financial factors as

important to investors (Beal & Goyen, 1998; Bollen, 2007; Chatterji, Levine, & Toffel, 2009; Eurosif, 2012b; J. Nilsson, 2009; Rosen et al., 1991; Statman, 2004). Thus, we expect that high financial profits and investment security or low volatility are supportive factors in the decision-making process in the SI context. Since SI also covers non-financial factors such as ethical considerations and personal values, we infer along the findings of the psychologist Festinger (1957) that investors will seek to align their beliefs with their investments. Thus, investors evaluate those opportunities that align with their values more positively. As literature points to a neutral risk/return implication of SI, and SI should be positioned positively in regard to non-financial considerations, we expect a positive attitude towards the behaviour in SI.

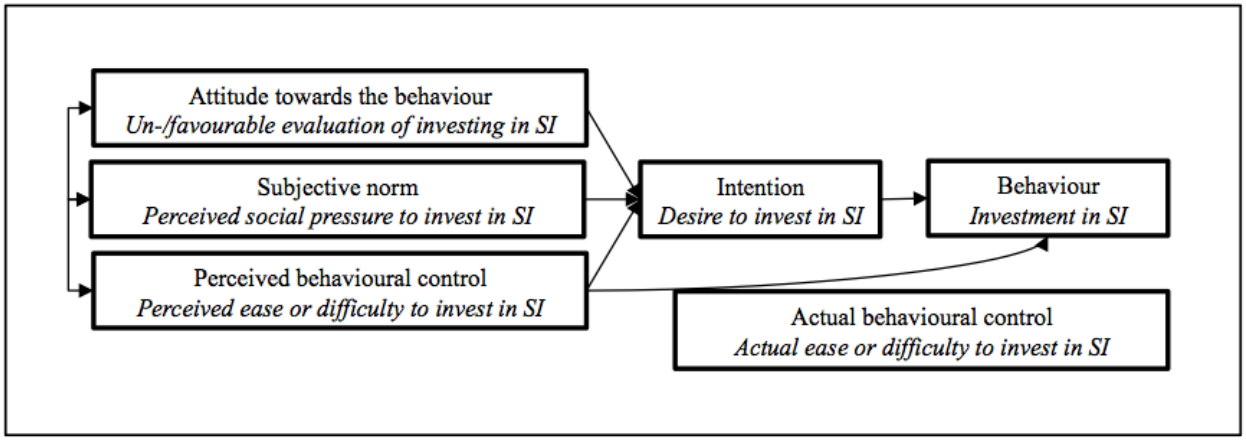
Subjective norm, the second predictor of intention, refers to the social pressure that the individual perceives towards the behaviour. Subjective norm results from the perception of what important peers or groups think about the behaviour, and the motivation to comply with these views. Eating a chocolate cake might be approved of by a person's office colleagues, but frowned upon by his marathon-running manager. As for investment decisions, East (1993) shows that the intention of a person to invest in shares is significantly influenced by the opinion of rela-tives and friends. Surveys find that the majority of Europeans consider sustainability impor-tant (Gallup, 2009); a representative study for Germany indicates that more than half of the citizens are generally interested in SI (Wins & Zwergel, 2014). Also wealthy private investors appear interested in SI (Eurosif, 2012b). Thus, we expect that there is some sort of perceived public pressure to invest in SI, and this subjective norm is supportive towards the intention to invest.

Perceived behavioural control, the last predictor of intention, is the perceived ease or difficulty to actually implement the behaviour of interest. That includes the person's perception of resources that are required, such as sufficient information, as well as opportunities or challenges to implement the behaviour. Consider that the bakers in the entire neighbourhood are perceived incapable of making proper cake. A supportive attitude towards the behaviour and subjective norm will result in a less strong intention to eat cake in such a situation compared to a situation where an artisan cake shop is found just down the street. In the investment context, East (1993) finds that investors who feel that they can't easily buy shares do not do so. Thus, we expect perceived behavioural control, the perception of sufficient information, opportunities, and low barriers, to impact private investors' formation of the intention to invest in SI.

In addition to its role as one of the three factors that determine intention formation, perceived behavioural control can also influence the behaviour in another way: A factor called *actual behavioural control* relates to perceived behavioural control, but pertains not to perceived barriers yet rather actual real-world barriers and opportunities that the person faces once the intention for a certain behaviour is formed. Such external aspects can hinder or facilitate the translation of that intention into action. As an example, consider the person who formed the intention to eat cake and went to the artisan cake shop down the street, but found it closed. East (1993) argues that investment decisions are so fact-based that no major difference between actual control and perceived control should exist. However, SI can be complex and new to some investors. Unanticipated regulatory barriers, advisors that are not accustomed to SI, or other roadblocks could limit people's ability to move from intention to behaviour. Thus, we expect that also the last determinant of behaviour, actual behavioural control, matters in the SI context.

In sum, we can relate each determinant of behaviour in the TPB framework to SI. We propose a correspondingly adapted wording of the framework as shown in Figure 1. As in other contexts related to sustainability, with this framework we expect to understand why individuals invest in SI, or why they do not invest, as observed in the SI gap, and to explain such variation.

Figure 1: Theory of Planned Behaviour framework adapted to the context of sustainable investing



Source: Adapted from Ajzen & Madden (1986)

2.3 Literature Related to the Determinants of Private Investors' Behaviour in SI

Depending on the balance of positive and negative connotations, three determinants of behaviour in the TPB framework either support or limit the formation of the intention to invest in SI. The intention leads to the behaviour of investing in SI, if no limitations from actual behavioural control constrain that. In our effort to develop a framework that helps to understand the decision-making process of private investors in SI, we relate insights from the SI literature to positive and negative connotations of each *determinant of behaviour*. Since the observed SI gap indicates that barriers keep investors from investing in SI, we focus our review on barriers, which we define as "departures from rational thought in predictable directions" (Shu & Bazerman, 2010, p. 3). An overview of studies that pertain to barriers for private investors in SI is presented in Table 1. Further, Table 2 outlines studies on motivations, as well as our results of inferring barriers by negating the aspects that these studies identified as motivations for SI.

In regard to *attitude towards the behaviour*, empirical work with private investors has identified the perception of a low financial performance or high risk of SI as a potential barrier (Eurosif, 2012b; Glac, 2008). Financial risk was recognized as a barrier in SI because it conflicts with the moral obligation to bequeath wealth to heirs (Lewis, 2001). In regard to non-financial aspects, the perception that SI products fail to comply with expectations on ethics, irresponsible business practices, or support for sustainable development could also be a barrier. Such aspects have been found to matter for private investors, sometimes more so than financial performance (Beal & Goyen, 1998; Lewis, 2002; Rosen et al., 1991; Webley et al., 2001).

Subjective norm relates to public pressure to invest in SI. It appears that the public including HNWIs are likely interested in SI (Eurosif, 2012b; Gallup, 2009; Wins & Zwergel, 2014). Further, literature suggests that some investors engage in SI in the expectation of a preferable public image (Chatterji et al., 2009; Statman, 2004). Yet, the literature does not indicate potential barriers that could negatively influence this subjective norm.

In *perceived behavioural control*, investors, in their thought process about the ease of investing in SI, can perceive a number of barriers related to the availability of SI products. One barrier could be a perceived mismatch between the focus of SI products on excluding industries and peoples' own interests, since "investors seem to prefer to reward firms who display overall positive social behaviour rather than to exclude firms on the basis of certain

products or practices" (Berry & Junkus, 2013, p. 707). Nilsson (2008) points to the barrier of mistrust towards the marketed merits of SI products; thus investors could refrain from even looking for a suitable product. Similarly, a survey by Eurosif (2012b) amongst private and institutional investors identifies a perceived lack of SI-information and SI-products as barriers.

As for *actual behavioural control*, the last determinant of behaviour, barriers have been found in the search for a suitable product. This search takes place after investors have formed the intention to invest in SI. Literature points to barriers in the form of a lack of financially relevant SI information published by listed companies (Hummels & Timmer, 2004), an overwhelming breadth of sustainability information offered by SI mutual funds (J. Nilsson et al., 2012), or investment advisors that withhold SI information from private investors in retail banking (Schrader, 2006).

Overall, a variety of potential barriers are identified in the literature that can be applied to the TPB framework. However, there are inconsistencies and knowledge gaps. In terms of inconsistencies, for example, concerns about moral obligation to bequeath to heirs, and therefore long-term performance concerns, are inconsistent with peoples' extremely high discount rates regarding the future and a strong focus on short-term returns (Shu & Bazerman, 2010). Concern for sustainable development as an important aspect is challenged by the tendency of individuals to blame others instead of taking action themselves, overly high optimism for the development of the future and human's ability to control uncontrollable events such as climate change, and mental reliance on future technology (Bazerman, Tenbrunsel, & Wade-Benzoni, 1998).

More important, however, are the following knowledge gaps. Amid the breadth and quantity of proposed barriers, it remains inconclusive what the *dominant* barriers are, i.e. what aspects matter most, if *interrelations* and/or *combinations* amongst barriers or other aspects exist, and *where in the decision-making process* these barriers appear.

The disparate findings and gaps of the extant literature reiterate the need for empirical work. This study applies insights from interviews with HNWIs to inform a framework that conceptualizes the decision-making process of private investors in the context of SI. This requires a more comprehensive and complete understanding of dominant barriers and the resulting SI-gap. The method applied in our empirical work is outlined in the following section.

Table 1: Studies Related to SI Barriers for Individual Private Investors

Study	*Aim, research question(s)*	*Methodology*	*Barrier(s) identified*	*Comment*
Lewis (2001)	What motivates ordinary, neutral and SI-investors to invest?	Focus groups (94 private investors)	Fear of low financial return of SI conflicts with moral obligation to bequeath; inertia	Heirs as a barrier is contrary to Eurosif (2012b) (see Table 2)
Hummels and Timmer (2004)	Does ESG or ethical (SEE) reporting meet shareholders' needs?	Multi-case study (3 companies)	Insufficient corporate SEE reporting for financially motivated investors	"Insufficient information" as a barrier is contrary to Nilsson, Siegl and Korling (J. Nilsson et al., 2012)
Glac (Glac, 2008)	Why do some individual investors practice SI and others do not?	Experimental survey (240 students)	Some investors might be less willing to sacrifice financial returns and associate these with SI	No clear barrier identified but inferred; calls for further research on barriers
Schrader (Schrader, 2006)	What role do advisors at retail banks play as diffusion agents of ethical funds?	Mystery shopping (21 advisors)	Retail advisors do not inform retail clients about ethical funds	Limited to retail investors; calls for further research on other regions and wealthy investors
Berry and Junkus (2013)	What is the attitude and understanding of individual investors toward SI?	Survey (5,000 individual investors)	Exclusionary SI approaches could mismatch investors' interest in more holistic approaches	Specific barrier inferred from survey results; contrary to Nilsson et al. (J. Nilsson et al., 2012)
Nilsson et al. (J. Nilsson et al., 2012)	How do consumers evaluate pro-socially positioned mutual funds in the post-purchase stage?	Literature review	Overwhelming heterogeneity and varying quality of SI mutual fund data	Specific barrier inferred from literature rather than by empirics; covers only the retail market
Nilsson (J. Nilsson, 2008)	What is the impact of pro-social or financial performance, socio-demographic factors on SI investors' behaviour?	SI customer data (528 private investors)	Mistrust towards the various marketed merits of SI	Specific barrier inferred from a non-SI study by Crane (2000)
Eurosif (2012b)	Practitioner study on the status of SI for HNWIs, family offices and banks	Survey (undisclosed respondents)	Lack of products; mistrust; lack of advice; financial performance and risk concerns	Utility of sample is limited due to an undisclosed number, type and distribution of respondents

Table 2: Studies Related to SI Motivators for Individual Private Investors; Inferred SI-Barriers

Study	*Aim, research question(s)*	*Methodology*	*SI motive(s) identified*	*SI barrier(s) inferred*
Rosen et al. (1991)	Identify characteristics of socially responsible investors, salient issues and expectations	Survey (4,000 individual investors of two funds that incorporate social screens)	Avoid poor environmental and/or labour relations practices and achieve a satisfactory financial performance and way of life	Poor ethical, labour relations, financial performance or fit with lifestyle
Eurosif (2012b)	Practitioner study on the status of SI for HNWIs, family offices, banks	Survey (undisclosed number, type and distribution of respondents)	Contribute to sustainable development, financial opportunity, wealth preservation	Poor contribution to sustainable development or financial return; no heirs
Bollen (2007)	Does the behaviour of SI investors differ from the behaviour of investors in conventional funds?	Regression on fund flows within SI funds versus conventional funds	Utility from owning securities of companies consistent with personal values and societal concerns	Products inconsistent with personal values or societal concerns
Nilsson (2009)	Identify reasons for investors to invest in SI-profiled mutual funds	Cluster analysis of survey data (563 individual investors)	Positive financial performance, satisfy social responsibility aims	Poor financial or social performance
Beal & Goyen (1998)	What are the motivations for investors to invest in a nature conservation firm?	Survey (739 individual shareholders of a nature conservation firm)	Counter environmental concerns, positive financial performance	Poor environmental contribution or financial performance
Lewis (2001)	What motivates ordinary, neutral and SI-investors to invest in SI?	Focus groups (94 private investors)	Avoid investments in firms with unacceptable ethical or environmental practices	Poor ethical or environmental performance of firms prevalent in SI products
Statman (2004)	Analogy from restaurants to financial products and investors	Theoretical work	Utilitarian benefits beyond low risk and high expected returns; social status	Poor utilitarian and/or expressive benefits
Chatterji et al. (2009)	How well do KLD ratings inform about past and likely future environmental performance?	Regression analysis (588 US firms)	Theory-derived motive clusters: Good financial performance, ethical concerns, desire to punish/reward firms, social status	Poor financial or ethical performance, rewarding/ punishing effectiveness, or effect on social status

2.4 Methods and Data

In light of the research gaps, we chose an inductive, theory-building research approach rather than a deductive, theory-testing method. Our empirical data was gathered through semi-structured face-to-face interviews with ten HNWIs. We followed an interview guide with open-ended questions to obtain the subjects' points of view in their own words (Kvale, 1996, 2007). Following an exploratory multi-case study approach we iteratively added empirical insights and through analytic induction moved toward concrete and empirically supported propositions (Eisenhardt & Graebner, 2007; Yin, 2003a). We will now outline our approach in more detail including the case selection, data collection and analysis.

2.4.1 Case Selection

Access to the secretive segment of HNWIs can be a challenge for scholars. HNWIs and their intermediaries commonly place a high value on confidentiality, given security concerns and the curiosity of colleagues, relatives, media, authorities and the public. This study accessed HNWIs through a Swiss private bank. In order to avoid selection bias the bank chosen for the interviewee solicitation is medium-sized in terms of assets under management and not branded as more or less 'sustainable' than others. The bank offers SI-products in the form of mutual funds, structured products and as a portfolio-management approach, on which the investment advisors have been trained alongside other traditional services and products. There is no (dis-) incentive to recommend one or the other product. The bank's HNWI clients serve as our cases. The selection of cases that contribute substantially to the theory-building quality of the whole sample is essential to ensure the external validity and therefore the generalizability of findings (Yin, 2003a). Accordingly, our case selection process followed the concept of theoretical sampling, where, following each interview, we reflected on worthwhile questions and interviewee profiles to investigate in order to develop theoretical ideas (Glaser & Strauss, 1967). We obtained a list of potential cases through an interview request letter that was framed as a general investigation of interviewees' investment interests and sent by the bank to its HNWI clients in Switzerland. We then conducted the interviews and iteratively developed the characteristics of our sample, as we obtained the most valuable insights in talking to polar types that are contrarily characterised by their high or low engagement in SI, investment knowledge and sustainability knowledge, as well as older or younger age versus the average age of HNWIs, 61 years (Fidelity Investments, 2012). We

stopped the data collection once additional theoretical insights gained through the interviews became small and a replication logic was secured (Eisenhardt & Graebner, 2007; Eisenhardt, 1989; Yin, 2003a). To ensure interviewees' privacy we refer to cases as PRIV_01 to PRIV_12. PRIV_01A to PRIV_02B were test-interviews (round 1) with persons that were both HNWIs and private banking professionals, which served to triangulate, calibrate and refine our understanding of the topic as well as the interview guide. We then conducted interviews with ten HNWIs for data collection purposes, named PRIV_03 to PRIV_12 (round 2). Table 3 provides an overview of the interviewee profiles (the additional information relates to results and is discussed later).

Table 3: Interviewee Profiles and Descriptives

Inter-viewee	Sex	Age	Inv. time horizon (years or heirs, if focus)	Occupation	Invest-ment know-ledge	SI know-ledge	SI practices applied: Exclusions	SI practices applied: ESG[T]	SI in-terest	SI data source	SI share in port-folio
Round 1: Initial interview guide development											
PRIV_01A	m	55	2-3	Private Banker	>	o	n.a.	n.a.	n.a.	n.a.	n.a.
PRIV_01B	m	~65	No info	Private Banker	>	o	n.a.	n.a.	n.a.	n.a.	n.a.
PRIV_02A	m	65	3-5	Accountant	>	o	n.a.	n.a.	n.a.	n.a.	n.a.
PRIV_02B	m	~45	No info	Fund manager	>	o	n.a.	n.a.	n.a.	n.a.	n.a.
Round 2: Interview data gathering											
PRIV_03	m	60	20-30	Lawyer	o	o	*	*	E	O	7-8%
PRIV_04	m	72	Heirs	Consul general	<	<			L	None	None
PRIV_05	m	61	20	Banking exec.	>	>	*	*	E	O	Some
PRIV_06	m	83	Heirs	Chemistry exec.	>	>	*	*	E	O	10%
PRIV_07	m	~75	Heirs	Energy exec.	<	o	*	*	L	None	Some
PRIV_08	m	63	1	Consulting exec.	o	o	*	*	L	None	Low
PRIV_09	m	63	Heirs	Banking exec.	o	o	*	*	E	A	100%
PRIV_10	f	68	Heirs	Ballet teacher	o	o	*	*	E	A	100%
PRIV_11	m	87	1	Engineer	o	o	*	*	L	A	None
PRIV_12	m	65	3-5	Lawyer, investor	>	o	*	*	L	None	Low

Note: Investment- / SI knowledge: '<' = None; 'o' = Some; '>' = Good level of knowledge relative to other interviewees
[T]: 'ESG' = environmental, social and governance factors considered in investment decisions
SI-interest: 'E' = explicit; 'L' = latent interest in sustainable investing products and processes
SI-data source: 'A' = client advisors; 'O' = other SI-data source, e.g. external SI-product vendors, media.

2.4.2 Data Collection

We conducted semi-structured interviews following the process proposed by Kvale (2007) that allows subjects to freely share their perception and experience on a topic. We iteratively

reviewed each interview for recurring patterns before the next interview was conducted in order to interpret findings and identify emerging theoretical ideas (Yin, 2003a). As a result, the interview guide was updated four times, strengthening the internal and construct validity of our empirical work (Gibbert, Ruigrok, & Wicki, 2008). Following the open questions included in the interview guide, the interviewee was first asked what general aspects he or she considers when setting up an investment portfolio, which elicited information on the individual family situation, investment knowledge, and investment time horizon. That was followed by a question on what trends or topics are considered as potential threats or opportunities, which elicited whether topics related to sustainability were part of the person's thinking generally and as an investor. If the interviewee mentioned aspects related to sustainability, interviewers would inquire on the understanding of what sustainability is, and whether the person invests accordingly. That would elicit the understanding of and engagement in SI, and would be followed by a question on the motivation to invest in SI, data sources, and, lastly, perceived barriers to invest in SI. We asked about these aspects only when the interviewee did not mention them by herself. Thus, sustainability or SI was *not* defined by the interviewers, but by the interviewee through a discussion about financial investments in general. The goal was to avoid social desirability or framing effects. Three researchers conducted the interviews. One researcher attended all of the interviews, one attended the test-round and one the data collecting interviews.

2.4.3 Data Analysis

Following Gibbert et al. (2008), all of the one- to two-hour interviews were recorded and transcribed. The data analysis had two phases. In the first phase, the two researchers who had attended all the data collecting interviews went through the interview manuscripts and independently identified quotes that outlined characteristics of each case related to the polar type characteristics, the perception of sustainability and SI, and reasons to engage in SI. The results were discussed and matched together with the third researcher who had attended the test interviews. The process revealed a high interest in SI, different motivations and a high variety in investors' perception of SI. In the second phase of the analysis, we applied the iterative and systematic concept of analytical induction and specifically pattern matching to identify similarities and differences between cases, as well as to develop concrete and empirically supported propositions (Eisenhardt, 1989; Yin, 2003). The same two researchers independently went through the interview manuscripts again and highlighted aspects related

to barriers in the involvement of interviewees in SI. The quotes were grouped under second and third-order codes and potential interrelations between barriers and other aspects were indicated. The three researchers compared the results and identified central patterns. The iterative, inductive process identified the three highly prevalent and dominant barriers that are outlined in the results section below.

2.5 Results

The results section presents interviewees' interest in SI, their investment motives and topics that they relate to SI. Furthermore, we present insights related to the determinants of behaviour, including propositions for three dominant barriers and their integration into the proposed framework.

2.5.1 HNWIs and SI: Interests, Motivations, and Topics

We found that all of the interviewees were interested in SI. With the exception of one interviewee who delegates all investment decisions to his advisor, each person considered sustainability aspects by excluding certain industries and considering environmental, social or governance aspects in their investment decisions. That includes interviewees that openly disdain SI, as the following persons did: *"PRIV_08: Sustainable investing is nothing but 'hot air'"; or " PRIV_12: Sustainable investing is a fashion-word, it is useless and a bad investment strategy. I have nothing against sustainable living and such, but as an investment concept it's a sales argument."* Despite their severe commentary, both are engaged in SI. For example, the latter interviewee consciously excludes the tobacco industry from his direct investments and invests in renewable energy mutual funds. However, he was not aware of the fact that SI includes what he routinely engages in through his own investment approach. Similarly, one interviewee (PRIV_07) had never heard of SI, yet invested in renewable energy funds. Another person (PRIV_04) attentively reads corporate water reports, but does not know about the possibility to invest in funds or mandates that consider water aspects. Thus, some individuals may invest in SI, or are interested in SI, but don't know what SI is or what it entails. They can be categorized as 'latently' interested in SI, versus those investors that know about SI and are 'explicitly' interested. The categorization of interviewees in these terms is provided in Table 3, together with their level of investment in SI, and an indication if

the person excludes investments due to ethical reasons and if environmental, social or governance aspects are considered in investments. Notably, almost all interviewees consider SI aspects, and even 'latently' interested persons invest up to 10% of their portfolio along SI considerations.

Further, the interviewees mentioned their motives to engage in SI. A mix of ethical and financial motives was brought forth by interviewees, for example: *"PRIV_03: I don't have British Tobacco in my portfolio anymore. Q.: For ethical reasons?; PRIV_03: No, due to smoking bans. […] I consider sustainable investing for diversification, profits and sympathy for a careful use of resources."* Ethical arguments were at the centre for two interviewees who were explicitly interested in SI and who invest 100% of their assets with financial objectives along SI criteria: *"Q.: What percentage of your portfolio is invested along sustainability criteria [and why]? PRIV_09: Everything, except cash. […] We want to invest with a good conscience"; or "PRIV_10: I simply want to stand behind where I make money and where I don't."* Overall, all interviewees mentioned mixed motives, yet ethics were more prominent than financial motives.

The sustainability topics that our interviewees were interested in varied strongly among individuals. On the one hand, an interviewed consul general with experience on water projects in Africa (PRIV_04), for example, placed a focus on natural resources and specifically water topics, yet considers wind and solar energy as something *"that doesn't lead to much"*, or *"a disgrace for landscapes."* An energy executive (PRIV_07), on the other hand, put a strong focus on renewable energy, which he predicts to *"have a great future."* Overall, the most prominent topics were natural resource scarcity, followed by the rise of renewable energy, corruption and a recession of ethics in business, the rise of energy efficiency technology, and climate change. Interviewees associated SI with thematic sustainability topics and specific industries, rather than, for example, microfinance or the consideration of environmental, social or governance aspects in security selection or portfolio construction. Thus, they focus on a small segment out of the much broader scope of SI. The specific topics that interviewees relate to SI varied widely and could often be traced to their professional background.

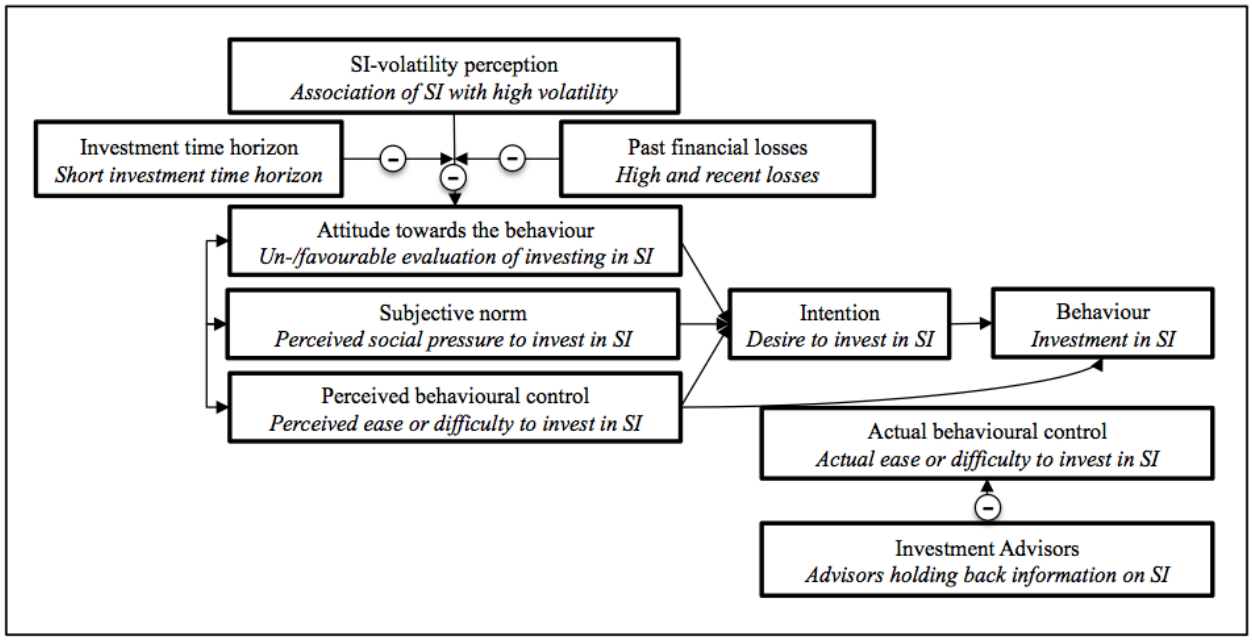
In sum, we find support for the existence of the SI gap: While many interviewees had little or no understanding of SI, we observe a high interest in considering sustainability aspects in their investment decisions. Even those interviewees that openly disdained SI do in fact invest in SI products and consider to some degree ethical or sustainability aspects in their investment decisions. We could thus infer that a large share of private investors is generally

interested in SI; however, their actual engagement can still be fostered. Further, different individuals have different motivations to invest in SI, yet purely financial concerns appear rare or unlikely. That supports the case for SI given its financial and non-financial qualities. As such, a substantial potential may exist for more SI engagement depending on better information on SI and its versatility. Lastly, people relate different topics to SI. The high heterogeneity in individuals' perceptions of SI and their motivations stresses the need to conceptually understand the decision-making process in SI. Adding to these general insights, we now outline findings related to the determinants of behaviour to develop a more fine-grained decision-making framework.

2.5.2 HNWIs' Engagement in SI: A Decision-Making Framework

Based on the SI-gap and our interviewees' high interest in SI, we were particularly interested in understanding the decision-making process of private investors and the reasons why they refrain from being more engaged in SI. Thus, we outline our interview results along the *determinants of behaviour* of the proposed TPB framework adapted to SI as displayed in Figure 1. We focus on dominant barriers and propose their consideration in the framework displayed in Figure 2.

Figure 2: Theory of planned behaviour framework adapted to SI and extended based on interview results



Note: The signs illustrate the proposed directionality of the relation, that is, (-) indicates a negative effect on the determinant

Attitude towards the behaviour. As expected from the findings of East (1993), the interviewees frequently voiced opinions about the volatility of SI. Typical interviewee statements highlighted SI aspects as worthwhile, yet the financial performance of SI as overly volatile, as illustrated by the following statement: *"PRIV_10: Sustainable firms will be the better investment in the long run. But most of them do not exist that long and are risky in the short term"*. Most interviewees related SI to specific industries that are rather volatile, specifically to investments in small firms that are active in the renewable energy or water sector. A substantial impact of the perception of SI as overly volatile was identified when it appeared either in combination with individuals' investment time horizon or with significant past financial losses, as detailed below.

Research in the field of psychology emphasizes that the future time orientation of individuals affects their pro-environmental behavior (Milfont & Gouveia, 2006; Rabinovich, Morton, & Postmes, 2010). Similarly, organizational research has found that the compression of time – e.g., by discounting – can lead to an imbalance between business practices and the relatively slower underlying cycles of the natural environment (Bansal & Knox-Hayes, 2013). These insights about individuals' time orientation help also understanding their financial decision making with regard to SI. The individual's investment time horizon ranged in our sample from one year to the consideration of following generations. We found clear evidence that the investment time horizon matters when individuals perceive SI to be volatile. When individuals have a long investment time horizon, their perception of SI to be volatile does not matter: *"PRIV_06: The investments shall serve my children. […] Of course I've invested. Long term, as that [volatile water-] fund will do well in 20, 30 or 50 years. […] It's an interesting topic for people that invest long-term, like me";* or *"PRIV_07: I invest [in as volatile perceived renewable energy funds] and my heirs reap the benefits"*. In contrast, we identified a dominant cognitive barrier when individuals have a short investment time horizon and consider SI to be rather volatile. This can be illustrated by the following exemplary quotes: "*PRIV_12: In my age now, I will be more critical [towards as volatile perceived SI]"*; or *"PRIV_11: I just see the stock-price drawdowns. To invest in solar would respond to my heart. […] [But] when I think about my [investment time horizon], it is rather short, based on my vintage."* This combination of short-termism and high perceived volatility of SI has a negative effect on attitude towards the behaviour (Figure 2). We summarize this in the following proposition:

Proposition 1: Private investors that associate SI with above-average volatility and have a short investment time horizon are less likely to invest in SI.

Further, the interviews showed that general and rather recent financial losses such as from the 'global financial crisis' beginning in 2008 combined with perceived high volatility matter as well. For example, one interviewee perceives SI as more volatile than average but aims to invest 100% of her wealth in SI. Following general financial losses she shifted some assets into non-SI investments: *"Q.: Has your investment behaviour changed due to the losses? PRIV_10: Yes, definitely. […] we have invested a bit in some big [non-SI] firms as well, something stable."* Similar reasoning for a low SI engagement was provided in the following statement by an interviewee who perceives SI as overly volatile: *"PRIV_12: […] and it all went down a lot in 2008. I don't want to experience that again."* Contrary to that, interviewees who experienced losses yet did not regard SI as volatile showed an unchanged interest in SI (e.g., PRIV_06, PRIV_09). The recurrence of the pattern throughout the interviews and the direct impact on the individual engagement in SI points to a cognitive dominant barrier. Conceptualised in the context of TPB, the perception of high volatility of SI in combination with financial losses has a negative effect on attitude towards the behaviour. The barrier is illustrated in Figure 2 and leads to the second proposition:

Proposition 2: Private investors that associate SI with above-average volatility and have experienced general recent financial losses are less likely to invest in SI.

Subjective norm. Our interviewees outlined that they discuss their investment decisions in private, with their wife or husband, and seldom with other family members or friends. Most active was an interviewee who stated the following: *"PRIV_08: I call two or three experts before I take a new investment decision."* More common were responses that indicate a very small circle of people with whom investments are discussed: *"Q.: Do you discuss your investments with someone else than your advisor? PRIV_05: Well, with acquaintances, I have two or three, but that comes and goes."* Others only mention the agreement of their partner: *"PRIV_09: Every firm, in which we invest, must get the ok from my wife."* Some interviewees aim not to be involved in their investments and delegate as much as possible to their advisors, for example: *"PRIV_04: We don't really care for it. The bank knows what we are looking for, but we don't get involved in the daily business. […] I trust the bank"*; or *"PRIV_07: It's simply [name of client advisor] who I discuss with, and he recommends me this and that. […]*

And then I do what is recommended. I don't know better." Overall, we find that interviewees discuss their investments with a rather small group of people, and thus are rarely, if ever, exposed to peer pressure. Therefore, subjective norm might be less relevant in the context of private investors' investment decisions than what could be expected from literature (e.g. Rosen et al., 1991; Statman, 2004). Since we cannot propose a specific dominant barrier in the context of subjective norm, we do not derive any corresponding implication for the decision-making framework.

Perceived behavioural control. As for *perceived* limitations to the investment in SI, some clients did mention a lack of viable SI products, as illustrated in the following examples: *"PRIV_03: I just don't see the right [renewable energy] products"; or "Q.: Are there sectors where you would like to invest, but have not found SI products? PRIV_06: The things that I use every day. Like paper. I have worked with that as a chemist. Or the food industry. That will change a lot"; or "PRIV_07: There are few [SI-] products. I mean climate change. What can you do there?"* We infer that private investors appear to perceive a limited availability of products that relate to some specific topics of their interest. However, most interviewees were actually invested in SI products that – more or less – pertain to the topics of their main interests. Thus, we did not identify a dominant barrier that pertains to perceived behavioural control.

Actual behavioural control. Prior research argued that *actual behavioural control* should not play a prominent role in investment decision-making (East, 1993). However, we found that the occurrence of actual limitations that investors could encounter following the formation of an intention to invest in SI could be important towards their actual *behaviour* of investing in SI. For example, the following interviewees explicitly sought to invest in SI yet received insufficient information from their advisors, information that was available to the advisors: *"PRIV_11: If I knew a firm is involved in wrongdoings, such as disposing of waste into the sea or Africa, then I would probably divest from that firm. Q: Do you have that information? PRIV_11: I do not have that information"*; or *"Q.: Has your advisor brought SI forward to you? PRIV_03: No. He thinks I have enough sources […] and that I get these monthly reports from [name of bank]."* Others received SI information, yet still lack SI advice that they can implement, as illustrated here: *"Q.: After you voiced your interest, have you received information on SI products from your advisor? PRIV_11: I received some information on SI. But I don't know how to act on it now."*

In sum, we found a dominant barrier in advisors who appear to withhold SI information from their clients. This barrier was found despite the fact that all of the HNWIs' advisors were trained on SI and were encouraged to advise their clients accordingly. Reasons for the hesitant behaviour could include advisors' concern or fear of the high heterogeneity in clients' view of SI. In the decision-making framework (Figure 2) we conceptualise this barrier accordingly: advisors reduce actual behaviour control, i.e. their clients' ability to act upon their intention to invest in SI. Accordingly, this is reflected by the last proposition:

> **Proposition 3:** While private investors may have the intention to invest in SI, the ability to invest in SI is restricted by investment advisors that withhold relevant SI-information.

2.6 Discussion and Conclusion

2.6.1 Potential Explanations for the SI Gap

Our results offer new explanations for the observed SI gap. While we find a high interest of HNWIs in SI, our results highlight important barriers in the decision-making process that keep private investors from engaging in SI.

Barrier one pertains to a combination of the perception of SI as volatile together with a short investment time horizon; barrier two describes the perception of high volatility of SI together with financial losses. Both combinations appear to have a direct negative effect on the person's *attitude* towards investing in SI, which predicts the formation of the *intention* to invest in SI.

These barriers could be of significant relevance for explaining the SI gap: First, the cognitive barrier stemming from volatility and short-termism could inherently affect many older people – such as, for example, many representatives of the highly economically relevant segment of HNWIs. With an average age of over 60 years this segment is relatively old (Fidelity Investments, 2012) and, thus, may have a tendency towards a shorter investment time horizon. Second, in the aftermath of the financial crisis, it is very likely that many private investors experienced financial losses. Thus, the cognitive barrier related to volatility and recent losses could apply to many private investors.

Finally, the third barrier – that advisors withhold SI information – comes into effect once a private investor has formed the intention to invest in SI. Sufficient information on how to act upon that intention is a prerequisite for the actual behaviour of investing in SI. Thus, SI information being withheld is a direct and – given the far-reaching reliance on investment advisors – a potentially rather powerful contributor to the SI gap.

2.6.2 Contributions to the Organization and Environment literature

To our knowledge, this is the first assessment of *dominant* barriers in the decision-making process towards SI engagement, as well as of *combinations* of aspects that form such dominant barriers. This study contributes conceptually through a framework of the decision-making process of private investors in SI, providing detailed empirical insights on the determinants of behaviour as proposed by the theory of planned behaviour.

As one key result, we find that while most HNWIs consider SI as rather volatile, they differ in the length of their investment time horizon; those HNWIs with a longer investment time horizon are more likely to engage in SI. This insight adds to the perspective that the consideration of time in management research is important for understanding the conditions for sustainable development (Gladwin et al., 1995). Bansal and Knox-Hayes (2013) argue that time is being compressed by organisations; this becomes obvious through financial instruments such as futures and derivatives. The resulting short-termism stands in conflict with the relatively slower underlying cycles of the natural environment. We observed this conflict in our interviews. Some interviewees were generally interested in considering ecological aspects within their investment decisions but their investment time horizon dominated this initial intention: investments that are aligned with natural environment considerations took too long for them to materialize. Others accepted a long investment time horizon and engaged in SI.

Beyond HNWIs, the effect of time on the engagement in SI has been observed for other types of investors as well. One example are Venture Capital (VC) firms. VCs typically raise large sums of capital and invest in promising start-ups that they nurture until they can be sold for a large profit. Similarly to our observation that those HNWIs with a long investment time horizon were more likely to engage in SI, Marcus and colleagues indicate that VC firms that engage in investments related to sustainability are "stretching out their timetables" (Marcus, Malen, & Ellis, 2013, p. 31). While we can identify this similarity between long-term oriented HNWIs and VCs they differ in one specific aspect that also matters in SI: VCs

typically are not willing to sacrifice financial returns for ethical or other non-financial benefits; for HNWIs this depends on the individual preferences. In sum, our findings add a piece to the puzzle of barriers and motivations for SI: for the economically highly relevant investor type of wealthy private investors there is no unequivocal picture; there are many individual aspects and differing perceptions that determine their SI engagement. This, in turn, implies that there is a huge potential for unleashing the powerful few and moving towards closing the SI gap.

Our findings on the important role of advisors in individual investors´ engagement in SI add detailed empirical evidence to prior suggestions on that topic in the SI literature (Hummels & Timmer, 2004; J. Nilsson, 2010). From the work of Schrader (2006), we know that advisors that withhold SI information are potential barriers for less wealthy retail investors. Schrader points to the logic that advisors of wealthy clients might have a better knowledge of SI and inform their clients accordingly, yet we show that even some HNWI advisors who have been trained on SI withhold that information. Thus, we add to literature with the notion that hesitant advisors might be an important SI barrier for private investors overall, both retail and HNWI.

2.6.3 Limitations and Future Research

In terms of the limitations of this exploratory study, the geographical focus and limited size of our sample have to be considered. We encourage future research to extend our results and to test and specify the impact and relevance of our propositions and the TPB framework adapted to SI. Comparisons of different types of investors or markets may provide valuable additional insights. In terms of generalizability, we suggest that studying HNWIs, on the one hand, imposes limitations due to their privileged access to investment solutions and advice; on the other hand, the lack of these privileges by retail investors means that some of the barriers that HNWIs face might be encountered by ordinary retail investors as well, if not even to a larger extent.

Our findings call for further research that links SI with behavioural economics. Combining individual´s time orientation with volatility perception and financial losses offers a bridge from SI engagement to prospect theory (Kahneman & Tversky, 1979). For example, the myopic loss aversion concept (Benartzi & Thaler, 1995) explains why people invest more in securities that they perceive as volatile if they reduce the frequency with which they evaluate the investment's financial performance, or consider a longer investment time

horizon. Applied in the context of SI, the concept could show that investors who consider SI as overly volatile might have a more positive *attitude* to SI not only if they consider a longer investment time horizon, as suggested in our study, but also if they reduce the frequency of evaluating the financial performance of their investments. Future research might find that the frequency with which performance is reported is fixed by bank operations or regulation, maybe to the detriment of privates' engagement in SI. Likewise, the house money effect concept (Thaler & Johnson, 1990) shows that investors are more risk-seeking following a gain compared to a situation after a financial loss. Applied to SI, the concept could provide a theoretical foundation to assess the effect of volatility not only with losses, as outlined in our study, but also with financial gains.

Further, our observation that investors state that they have the general intention to invest in SI, but they did not invest in SI due to short-term financial concerns, points to the want/should distinction of Bazerman et al. (1998). The framework pertains to similar conflicts between what people *want to do* versus what they *think they should do*. An assessment of the want/should distinction in the context of SI and the TPB framework might, for example, identify a moderating effect of the want/should distinction between *intention* and *behaviour*. Lastly, advisors' neglect for SI is surprising since the general benefit of their work for clients is increasingly challenged (Hackethal et al., 2012). Here, providing detailed SI related information might be an opportunity to add new value to their advisory services. For scholars it would be of interest to investigate why advisors do not provide this information, i.e. what are the perceptions, frames, barriers, and motivational aspects that determine the advisors' engagement in discussing SI with private investors.

2.6.4 Implications for Practitioners

Our results reveal insights about investors´ behaviour that are vital for practitioners when promoting SI funds and investment products (Dunfee, 2003). Our results regarding HNWIs' high interest in SI point to a substantial market opportunity for SI. However, due to differing investor preferences, a 'one size fits all' strategy in product development and placement is not advisable. Private investors have different motivations to invest in SI. These motivations range from considering investment approaches that only exclude certain industries to holistic approaches that encompass a full range of different environmental, social, and governance criteria.

This is an important finding for practitioners who seek to balance the way products are tailored to the interest of clients and attract substantial amounts of assets. Similarly, practitioners might consider clients' investment time horizon or history of financial losses for the strategic positioning of SI offerings. For example, clients that experienced losses may be interested in more conservative SI approaches that seek to reduce risks by considering environmental, social and governance factors. More volatile renewable energy investments could attract investors with a long investment time horizon. However, one requirement is that they have not experienced recent financial losses.

Finally, practitioners might consider our finding on advisors as a critical roadblock in the development and distribution of SI offerings. It appears important to train and motivate advisors to inform clients about SI and to be prepared to adequately respond to their clients' heterogeneous understanding of SI. Overall, this study shows that the general availability of information about SI, the individual perception of SI, and specific characteristics of investor types are of importance for SI engagement. These aspects determine the decision-making process in SI and go beyond the usual "does it pay to be green" debate that so far dominated the discussion in academic and practitioner literature.

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3 More than Money: Why Investment Advisors Rarely Talk About Sustainable Investing

Abstract

Most private investors are interested in sustainable investing; yet their actual engagement is low. Based on a survey with 95 investment advisors, this study explores their important role and finds that advisors are hesitant to communicate about sustainable investing. We develop a model that explains differences in that behavior. A significant effect shows for advisors' perception that sustainable investing is very complex and their expected financial performance. This leads to the dynamic real options logic as an avenue to conceptualize advisors' behavior. Contrary to literature, no significant effect is found for advisors' expected volatility of sustainable investing, self-transcendent values and socio-demographics. As such, this study contributes to the understanding of the relationship between private investors and investment advisors in sustainable investing. Further, these findings and their generalization indicate that salespeople might systematically deviate from their clients' interests, and provide insights into the micro-foundations of decision making by salespeople in regard to social responsibility.

Key Words: investment advisors, private investors, investment decisions, sustainable investing

Status: This working paper is in a review process with the journal Annals of Social Responsibility.

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3.1 Introduction

Empirical evidence shows that the majority of people are potentially interested in sustainable investing (SI) (Gallup, 2009; Wins & Zwergel, 2014). Through SI, these individuals in their role as private investors aim to "integrate certain kinds of non-financial concerns – variously called *ethical*, *social*, *environmental* or *corporate governance* criteria – in the otherwise strictly financials-driven investment process" (Sandberg et al., 2008, p. 519).

A dichotomy exists, however, between the high interest in SI and the observation that just 3% of financial assets under management in SI are governed by private investors (Eurosif, 2012a). 97% of assets in SI are governed by institutional investors, although the overall amount of assets governed by institutional and private investors are comparable (Çelik & Isaksson, 2014; Shorrocks et al., 2013). The dichotomy is amplified by the observation that 40% of private wealth is governed by wealthy private investors (Shorrocks et al., 2013), who are particularly interested in SI and enabled to invest in SI (Eurosif, 2012b). Thus, we observe a gap between the expected and the actual engagement of private investors in SI. We call this gap the 'SI gap', which provides the motivation for this study. The gap has been indicated in literature (e.g., Eurosif, 2012a; Jansson & Biel, 2011; Paetzold & Busch, 2014), yet the mechanisms behind it remain opaque (e.g., Glac, 2008; Juravle & Lewis, 2008).

One potential explanation for the SI-gap lies with the role of investment advisors, the connection point between a bank's investment professionals and its clients. Private investors rely on investment advisors to engage in SI (Eurosif, 2012b; Schrader, 2006), as the combination of financial and non-financial information can be challenging (Bansal, Gao, & Qureshi, 2014; Girerd-Potin, Jimenez-Garcès, & Louvet, 2013). The observed SI-gap indicates an underserved interest for SI amongst private investors, and thus a disparity between advisors and their clients when it comes to SI. This leads to the research question of this study: *Do investment advisors neglect to communicate about SI in their client discussions, and, if so, why?*

Based on a survey with 95 investment advisors we identify their level of activity in communicating about SI in client discussions, which we call their level of 'SI communication'. We test a model of constructs that help explain differences in advisors' level of SI communication. We find a significant effect of the expected financial return and the perceived complexity of SI, and a high level of potential non-financial benefits of SI

communication. As such, advisors' SI communication might be conceptualized through the logic of real options; a logic that is helpful in the context of business decision-making considering risks in the natural environment (Busch & Hoffmann, 2009; Cortazar et al., 1998; Husted, 2005; Wang et al., 2012). We do not find a significant relationship between advisors' SI communication and the expected volatility of SI, socio-demographics, self-transcendent values, or the investment time horizon of clients. These findings are surprising and contrary to an established body of literature on the behavior of people (e.g., Benartzi & Thaler, 1995; Kahneman & Tversky, 1979; Karp, 1996; Lewis & Mackenzie, 2000; Schultz & Zelezny, 1999; Stern et al., 1999).

Beyond the context of SI, the generalization of our findings indicates that salespeople in the context of social responsibility focus on financial aspects and omit self-transcendent values, for example, and might systematically deviate from the interest of their clients. As such, this study answers to calls in literature to explore the micro-foundations of decision making in regard to SI and social responsibility (Glac, 2008; Gond et al., 2011; Juravle & Lewis, 2008), as well as on the relationship between private investors and investment advisors (Inderst, 2011; Mullainathan, Noeth, & Schoar, 2012; West, 2012).

The study unfolds as follows. The next section provides a background on private investors and SI, the motivation to invest in SI, and the role of investment advisors. We then draw from literature on individuals' decision-making when considering the natural environment or SI, and develop hypotheses that pertain to constructs that may determine advisors level of activity in communicating about SI, or their 'SI communication'. Following that, we outline the applied methodology and our results. We then discuss our findings and their relevance to scholars and practitioners in regard to SI and social responsibility. We close with a brief conclusion.

3.2 Sustainable Investing and Investment Advisors

3.2.1 Underrepresentation of Private Investors in SI

The interest and financial assets invested in SI have grown steadily. SI accounts for approximately USD 14 trillion in investments globally (GSIA, 2013) and over 1,100 investment houses committed to SI to date (UNPRI, 2013). As such, SI has been pointed to as a mainstream practice that is widely applied in capital markets (e.g., Eurosif, 2012a;

Sievänen, Rita, & Scholtens, 2013). However, in Europe, the region where SI is most prominent (GSIA, 2013), 97% of the total assets under management in SI are governed by institutional investors, such as pension funds, while just 3% are owned by private investors (Eurosif, 2012a). This marginal share of private investors in SI is at odds with the interest of the majority of privates, including the wealthy, in SI (Eurosif, 2012b; Gallup, 2009; Wins & Zwergel, 2014). It cannot be explained by the distribution of assets either. Institutions govern an estimated USD 80 trillion, compared to private financial wealth which stands at USD 50 trillion (Çelik & Isaksson, 2014; Shorrocks et al., 2013). Thus, the mainstreaming argument might apply only to institutional investors, and less so to private investors. This reiterates the 'SI-gap' observation of surprisingly few private investors actually being engaged in SI, which is where this study aims to derive answers from the perspective of advisors.

3.2.2 Financial and Non-Financial Motivations for SI

Private investors engage in SI because of financial and/or non-financial motivations (e.g., Beal & Goyen, 1998; Bollen, 2007; Chatterji et al., 2009; Eurosif, 2012b; J. Nilsson, 2009; Rosen et al., 1991; Statman, 2004). In regard to non-financial aspects, SI can provide benefits such as a 'warm glow' feeling (Andreoni, 1990) and social status (Statman, 2004), answer to ethical concerns (Sandberg & Nilsson, 2011), or prevent discomfort from investments that are incoherent with personal values and beliefs (Festinger, 1957). This can be achieved through a focus on certain industries (e.g., water, renewable energy), and likewise the exclusion of others (e.g., weapons, tobacco), or the integration of environmental, social, and corporate governance (ESG) criteria into the selection and valuation of securities (GSIA, 2013).

Investors that focus on financial benefits might focus less on exclusions, but seek to reduce risks by considering ESG criteria, or aim for outsized gains by focusing on specific industries or sectors (Marcus et al., 2013). The debate on the financial benefits of SI continues (Orlitzky et al., 2011). On a systemic level, Orlitzky (2013) highlights that some of the data used to categorize a security in terms of SI might not be related to firms' economic fundamentals. As SI, in the long run, becomes mainstream amongst a sufficiently large group of investors, the compound effect of the utilization of such data could be conceptualized as endogenously generated noise in equity markets, "which in turn leads to excess market volatility" (Orlitzky, 2013, p. 238). So far, the risk-adjusted performance on the level of SI mutual funds appears to be, at least, "not statistically different from the performance of conventional funds" (Renneboog et al., 2008, p. 1). Also on the level of individual firms, no

negative performance implications are found, yet positive implications are indicated (Albertini, 2013; Orlitzky et al., 2003; Surroca et al., 2010). The underlying logic for a positive relationship between sustainability and corporate financial performance follows from, for example, the adaptation of businesses to sustainability-related changes in business-sphere conditions (e.g., Orlitzky & Swanson, 2008; Porter & Kramer, 2006).

Overall, SI offers a multi-attribute utility (Bollen, 2007); investors derive utility from financial and non-financial motivations, and their relative importance varies between individuals (Cheah et al., 2011; J. Nilsson, 2009). This study contributes insights to the corresponding positioning of investment advisors.

3.2.3 The Role of Investment Advisors in SI

The financial crisis in 2008 led to calls for a better understanding of the relationship between private investors and investment advisors (Inderst, 2011; Mullainathan et al., 2012; West, 2012), which is where this study aims to add insights based on the case of SI. Moreover, in SI, a specific research gap needs to be addressed. Prior research showed that private investors lack information on SI and suitable products (Eurosif, 2012b; Hummels & Timmer, 2004). This is a dichotomy in light of the broad landscape of available SI products and solutions (Eurosif, 2012a). For example, private investors have also been found to suffer from an overwhelming breadth of sustainability information on SI mutual funds (J. Nilsson et al., 2012).

A potential explanation for the dichotomy between too much and too little SI-information as a barrier for private investors lies in the fact that SI combines financial and non-financial criteria. This can be rather complex and new to investors. It is in such situations where professional investment advice plays an important role; a role that has not yet been explored in-depth in the academic literature (Inderst, 2011).

The observed SI-gap points to a low level of the communication about SI between advisors and their clients. Advisors that behave hesitant or even counter-productive on SI, however, would be a dichotomy as well. The general benefit of their work for clients is increasingly challenged (Hackethal et al., 2012; van de Venter & Michayluk, 2008). Thus, discussing topics related to sustainability that speak to a client's conviction from a financial and non-financial perspective, and that many private investors appear to be interested in, could add new value to their advisory services and allow for more salient business relationships.

This study explores this potential dichotomy of advisors that appear less active in SI than what the potential market opportunity of SI would suggest. It provides the first quantitative assessment of advisors level of SI communication, and aspects that explain differences herein.

3.3 Potential Explanations for Differences in Advisors' Level of Activity in SI Communication

Why do some advisors communicate about SI while others do not? To derive an answer to that question, this study draws from constructs that have been shown to be valuable to explain the behavior of people in decision-making related to SI or the natural environment (e.g., (Jansson & Biel, 2011; McLachlan & Gardner, 2004; Roberts, 1996; Rosen et al., 1991; Stern et al., 1999), which we relate to advisors' level of SI communication.

Financial return. The expectation of appropriate risk adjusted financial returns is a fundamental driver for the investment of financial assets (Sharpe, 1964). This applies in the context of SI as well, where some investors are motivated primarily by financial returns (J. Nilsson, 2009). Investors differ in how much financial return they expect from SI, however, and some investors expect and accept lower returns from SI than from traditional investments (Lewis & Mackenzie, 2000). For investment advisors, a positive financial return generated by their clients typically links to a higher income due to higher management fees. Further, an explorative practitioner survey indicated that the financial performance of SI matters for advisors in the context of SI (Calvert Foundation, 2012). Therefore, a higher value in the expected financial performance of SI relative to traditional investments may relate positively to advisors' level of activity in communicating about SI with clients.

> H1: *The perception of a higher financial return of SI relative to traditional investments relates positively to advisors' SI communication.*

Volatility. From behavioral finance we know that "losses loom larger than gains" (Kahneman & Tversky, 1984, p. 346). Investors dislike volatility disproportionally to stability in financial returns, and as a result tend to deviate from mathematically rational levels of volatile stock equity relative to stable bond paper (Benartzi & Thaler, 1995). Sustainability related activities

of firms might reduce such risk (Bansal & Clelland, 2004; Godfrey, Merrill, & Hansen, 2009; Orlitzky & Benjamin, 2001) or incur outsized costs and increase risk (Munk, 1999). A seminal meta analysis on the effect of sustainability activities and corporate financial return outlined modest positive financial return effects of sustainability activities, yet together with a very high variation in these returns (Orlitzky et al., 2003). Further, a small segment of SI that received substantial public attention pertains to rather volatile investments in themes such as renewable energy or water (GSIA, 2013). Thus, advisors might perceive a high volatility of SI, which could reduce their interest in SI. Conversely, the expectation of a lower volatility of SI relative to traditional investments may support advisors' SI communication.

H2: *The perception of a lower volatility of SI relative to traditional investments relates positively to advisors' SI communication.*

Complexity. The concepts of sustainability and SI are complex in that they mean different things to different people, and by some definitions can even be viewed as 'radically confused' or as an essentially contested concept (Gallie, 1956; Moon, 2007; Okoye, 2009; Woods & Urwin, 2010). Even amongst mainstream actors and scholars "there is no clear consensus of what this term [SI] means" (Berry & Junkus, 2013, p. 707). The result can be "endless disputes about their proper uses on the part of their users" (Gallie, 1956, p. 169). Further, Nilsson et al. (2012) point to a highly complex search process due to the breadth and quality of financial and non-financial information that is available to describe SI products. Thus, advisors might face both a high level of complexity in figuring out what SI means for their individual clients, and in identifying appropriate SI products. As such, the complexity of SI infers the need for a lot of work, and puts advisors at the risk of appearing little informed in front of their clients. Therefore, the perception of SI as a highly complex field could have a negative impact on advisors' level of SI communication.

H3: *The perception of SI as highly complex relates negatively to advisors' SI communication.*

PR stunt. The use of "green", "ethical", "sustainable", etc., attributes that are added to the communication around a large variety of products has increased substantially. With it, the risk of the misuse of these attributes rose accordingly (Polonsky et al., 1998), and has become a serious threat for those recommending related products or services (Crane, 2000). SI has not

been left out, and "scepticism toward ethical and social claims is […] likely to be a major concern for marketers of [SI] products" (J. Nilsson, 2008, p. 310). Advisors might appear to market SI as an investment topic in the very moment that they mention it in a client discussion. Therefore, they are exposed to the risk of being associated with the disappointments or negative associations that would result from SI as a topic turning out to be a PR stunt, i.e. promising more than it claims to. This would jeopardize the relationship with the client, which is an important asset for the advisor. Thus, we assume that a higher perception of SI as a topic that is more marketing related, or a 'PR stunt', to reduce advisors' SI communication.

H4: *An increased perception of SI as a PR stunt relates negatively to advisors' SI communication.*

Self transcendent values. Self-transcendent values relate to individuals' varying concern for aspects related to the natural environment and society at large, such as pollution or inequality. The importance of self-transcendent values varies amongst individuals, and its effect on individuals' interest in environmental concerns has been well documented (e.g., Karp, 1996; Schultz & Zelezny, 1999; Stern et al., 1999). First evidence relates investors' relative importance of self-transcendent values to their behavior in regard to SI (Jansson & Biel, 2011). Advisors in their daily work can align or leverage their own self-transcendent values, or else act in defiance of them. We expect that advisors aim to reduce the potential cognitive dissonance between their personal values and their daily actions in their professional role (Festinger, 1957). Therefore, we expect a higher prominence of self-transcendent values to relate to a higher level of SI communication.

H5: *A higher consideration of self-transcendent values relates positively to advisors' SI communication.*

Perceived consumer effectiveness. Perceived consumer effectiveness (PCE) refers to individuals' varying belief in the possibility to influence society or the natural environment through their own purchase or investment decisions. PCE is valuable in explaining pro-environmental consumer behavior (Roberts, 1996) and the behavior of private investors in SI (J. Nilsson, 2008, 2009). Investors that believe in the effectiveness of their investment decisions attempt to influence firms along their personal values by directing their investments

to more sustainable firms, with the aim of contributing to sustainable development, both in regard to social or to environmental aspects (e.g., Beal & Goyen, 1998; Eurosif, 2012b). As such, they replace or complement financial motivations with a values-based and ethical approach (e.g., Lewis, 2001; Rosen et al., 1991; Webley, Lewis, & Mackenzie, 2001). As with the self-transcendent values construct, advisors in their daily work, specifically in regard to SI, might be influenced by their belief in the significance of investment decisions in the real world.

> H6: *A stronger belief in the effect of investment decisions on society or the natural environment relates positively to advisors' SI communication*.

Trust in providers. Similar to the argumentation regarding the perception of SI as complex, or a PR stunt, advisors might fear to recommend specific providers of SI products that turn out as a fraud or disappointment. That applies to traditional investment solutions as well, yet the risk is amplified in SI as sustainability related investment processes are still rather undefined (Berry & Junkus, 2013). Nilsson (2008, p. 310) outlines that, whereas confidence has been shown to have an important influence in a breadth of industries, "the impact of trust in the (SI) context is largely unknown"; yet mistrust is a specific barrier for private investors in SI (Eurosif, 2012b). The belief in the trustworthiness of providers of SI products varies amongst private investors, and has an influence on their positioning towards SI (J. Nilsson, 2008); we expect to observe the same mechanism in the context of advisors.

> H7: *Less trust in the providers of SI products or services relates negatively to advisors' SI communication.*

Client wealth. Advisors are more keen to advise wealthy clients compared to less wealthy private investors (West, 2012). In regard to SI, private investors' wealth appears to be positively related to their interest and engagement in SI (e.g., Cheah et al., 2011). Wealthy investors are also more flexible in allocating some of their wealth to investments that might be associated with SI, and have access to more such investment options (Eurosif, 2012b). Past assessments of the relationship between client wealth and the activity of advisors were limited to investor categories that are well below the lowest category covered in this study. This is probably due to the limited data availability for wealthy private investors. We expect that

differences exist even within the segments of wealthy private investors whose advisors are covered in this study.

H8: *Advisors whose clients are in a higher wealth category show a higher level of SI communication.*

Client investment time horizon. Some sustainability topics such as climate change and resource scarcity relate to long term trends, and research in the field of psychology emphasizes that the future time orientation of individuals affects their pro-environmental behavior (Milfont & Gouveia, 2006; Rabinovich et al., 2010). As such, investors' individual investment time horizon likely relates to their positioning towards SI. First evidence for that mechanism is provided by a survey amongst Swedish investment institutions that was carried out by Jansson and Biel (2011), who outline that SI could resonate better with investors that have a long investment time horizon. In addition to that and specific to the context of our study, wealthy investors "are typically long-term investors whose aim is to preserve capital for the next generations to come" (Eurosif, 2012b, p. 7). Thus, we expect that advisors whose clients have a rather long investment time horizon might show a higher level of SI communication.

H9: *Advisors whose clients have a longer investment time horizon show a higher level of SI communication.*

3.3.1 Real Options Logic as a Perspective to Conceptualize Advisors' Activity in SI Communication

The common logic for advisors to decide whether they want to communicate about SI in their client discussions can be the estimation of the net present value (NPV) of that decision. Along the logic of NPV, the advisor could mentally estimate the resulting potential future cash flows and discount the future value of these cash flows. The advisor would decide to communicate about SI if the cumulative NPV value appears to turn out positive**.**

In settings that are complex and dynamic, however, the static logic of NPV reaches its limits (Abad, Clarke, & Miller, 2005; Bowman, Moskowitz, Cox, & Box, 2001; Krychowski, Que, & Quélin, 2010; Tong & Reuer, 2007). In settings like SI, that contain complex uncertainties related to sustainability aspects such as climate change or the natural

environment, it is particularly the logic of real options that provides a helpful conceptual frame to make investment decisions (Busch & Hoffmann, 2009; Cortazar et al., 1998; Husted, 2005; Wang et al., 2012). In the real options logic, the NPV logic is extended with the value that can be assigned to the option to wait with a decision until more information is available (Dixit & Pindyck, 1994). Thus, the value of that option increases with uncertainty, which can generate incentives to delay otherwise profitable investment decisions.

This might be the case of SI; advisors might perceive it financially attractive to communicate about SI, but decide against it because they attach a higher value to the (real) option to defer that decision. They might rather wait until more information becomes available and complexity or risk is reduced. We argue that four conditions, if fulfilled, could indicate that the real options logic can be applied to the context of advisors and SI.

First, a significant relationship between the level of SI communication and expected financial return of SI must be observed. This indicates that expected financial return matters significantly for advisors in SI; otherwise neither the NPV logic nor the real options logic must be considered.

Second, a low absolute level of SI communication must coincide with a high absolute level of expected financial return of SI, relative to traditional investments. In that case, advisors appear to forgo a decision that is financially attractive and which, based on the NPV logic, should not be forgone. This observation would infer that advisors might not apply the NPV logic in SI.

Third, a significant negative relationship between SI communication and all or some of the variables related to complexity and risk must be identified. The observation outlines that aspects other than financial performance alone matter for advisors in the context of SI. This legitimizes the application of these aspects in the real options logic.

Fourth, a high absolute level of perceived complexity and/or risk has to coincide with a low absolute level of SI communication. This shows that the negative relationship between these constructs does not only exist (Condition 3), but it is also economically relevant.

Advisors appear to consider the real options logic if all four conditions are found supported. In that case, they care about the financial performance of SI, which they deem attractive; but at the same time perceive SI as complex and risky, and defer the decision to communicate about SI. We summarize the four conditions in one hypothesis.

H10: *The stronger perception of SI as complex and risky has a more negative effect on SI communication than the expectation of attractive financial returns of SI has a positive effect.*

Based on the traditional usage of real options logic, Hypothesis 10 considers only financial benefits. In accordance with the outlined non-financial benefits of SI, we expand Hypothesis 10 with the potential non-financial benefit that communicating about SI could have for advisors. If advisors have a high level of self-transcendent values, and they believe that investment decisions have an effect on society or the natural environment, then communicating about SI could have a non-financial benefit for advisors. To test for Hypothesis 11, we expand the second condition. We add the expectation of a high absolute level of self-transcendent values and perceived consumer effectiveness (PCE). Thus, the expanded second condition goes beyond 'a high absolute level of expected *financial* return of SI'. It is formulated as follows: A low absolute level of SI communication must coincide with a high absolute value of expected financial return and/or non-financial benefits of SI communication. This leads to Hypothesis 11.

H11: *The stronger perception of SI as complex and risky has a more negative effect on SI communication than the financial and non-financial benefit of SI has a positive effect.*

3.4 Methods and Data

3.4.1 Research Case

The investment advisors covered in this study focus on clients that have more than USD 300'000 in freely investable assets at their disposal. More than 85% of the advisors focus on clients with more than USD 1 million (Table 4). These clients are called high net worth individuals (HNWIs), or ultra high net worth individuals (UHNWIs) if they govern more than USD 30 million (Capgemini & RBC Wealth Management, 2012). We focus on advisors to wealthy private investors for three reasons. Firstly, their clients are economically significant, and understanding the segment better can provide insights to a large part of the SI-gap. HNWIs and UHNWIs make up only 0.7% of the world population, yet they govern more than 40% of global household wealth (Shorrocks et al., 2013). Secondly, the dyadic relationship between advisors and wealthy clients is likely to be particularly close. West (2012) found that older, more educated individuals, employed in managerial or professional roles, with higher

income and higher net worth, were more likely to engage advisors; a profile that suits specifically to the segments covered in this study (see, e.g., Fidelity Investments, 2012). Third, wealthy private investors appear to be interested in considering sustainability topics, and are particularly enabled to invest along their interests, since they "have access to investments that are normally closed to smaller retail investors, and the freedom to move funds quickly without having to perform the extensive due diligence required by institutional investors" (Eurosif, 2012b, p. 7).

Overall, it appears that wealthy private investors would be likely to engage in SI, yet the observed SI-gap persists. That puzzle, and the magnitude of the potential impact of wealthy private investors' behaviour on financial markets, lend themselves to scholarly work. Research into this group appears to be non-existent, however, probably because these people are hard to access due to secretive private banks, consultants and advisors. Insights on the relationship between advisors and wealthy private investors in the context of SI are therefore particularly required (Schrader, 2006), which is where this study contributes due to its original sample.

3.4.2 Sample and Data Collection

The survey was developed based on the above hypotheses. To increase its reliability the questionnaire underwent five testing rounds with 20 practitioners, management- and psychology scholars (Presser et al., 2004). The online self-reported survey was programmed and administered via the web-based survey tool Unipark. The survey invitation and two consecutive reminders were sent via email from within two private banks to all of the banks' advisors based in the Swiss market. Out of a total of 240 recipients, 95 complete responses were received at a response rate of 40%, which is a typical rate for an online survey (Couper, 2000). Descriptive statistics are outlined in Table 1. We observe no particular skews apart from a strong overweight of male respondents, which is rather typical in the financial services industry. The average responding investment advisor is male, holds a Bachelor degree, is 45 years of age, has children, and serves clients that are 60 years of age and that govern between USD 1 million and USD 30 millions in wealth (Table 4). Further insights into the distribution within the measured categories are provided in Table 4 in the Appendix.

Table 1: Descriptive Statistics (N = 95)

	Minimum	Maximum	Mean	Std. Deviation	Variance
SI communication	1.00	5.00	2.77	0.89	0.80
Gender	1.00	2.00	1.12	0.36	0.13
Kids	1.00	2.00	1.56	0.52	0.27
Education	1.00	7.00	4.43	1.78	3.16
Bank	1.00	2.00	1.55	0.50	0.25
Language	1.00	2.00	1.17	0.38	0.14
Age	1.00	4.00	2.51	0.89	0.80
Age.CL	1.00	3.00	2.34	0.54	0.29
PCE	1.00	5.00	3.61	0.96	0.91
Vola	1.00	5.00	2.89	0.74	0.55
Return	1.00	5.00	2.77	0.78	0.61
Complex	1.80	5.00	3.50	0.68	0.47
PR	1.00	5.00	2.47	0.94	0.89
Trust	1.00	5.00	3.51	0.91	0.84
Values	1.33	5.00	4.16	0.74	0.55
Wealth.CL	1.00	3.00	1.97	0.52	0.27
InvHor.CL	1.00	4.00	2.70	0.78	0.60

3.4.3 Variables and Data Analysis

Dependent variable. The dependent variable is defined as individual advisor's level of activity in communicating about SI in client discussions; i.e. their level of 'SI communication'. The level of SI communication is measured via four items on a 5-point Likert scale. The items were developed throughout the iterative questionnaire development process and are provided in Table 2 in the Appendix; the reliability as calculated through the Cronbach's Alpha value is satisfactory (0.836).

Independent variables. The advisors' expectation of the return and the volatility of SI compared to traditional investments was measured on a 5-point Likert scale anchored at 'much lower' and 'much higher'. They are indicated in the regression model as the 'return' and 'vola' variables. The following constructs were measured via three items each, on a 5-point Likert scale. We apply the items suggested by Stern et al (1998) to measure self-transcendent values, i.e. the 'values' construct (Cronbach's Alpha .717). During the iterative questionnaire testing process we developed measures for the constructs 'PR'(-stunt) (.768), 'Trust' (.632) and 'Complexity' (.612). Both latter constructs obtained the lowest Cronbach's Alpha value in the study, yet are kept in the regression model since the value is potentially underestimated in smaller samples (Sijtsma, 2009), and the obtained values are above what has been recommended (Nunnally, 1967). In regard to perceived consumer effectiveness, i.e. the 'PCE' construct (.744), we follow Nilsson (2008, 2009) in the application of two items that are adapted to the context of SI. Range categories to choose from by the advisors were

applied to measure their clients' average investment time horizon, the 'InHor.CL' construct, and wealth bracket, the 'Wealth.CL' construct. The two real-options related hypotheses are tested along the outlined four conditions, based on the variables that are employed to measure advisors' level of SI communication, and their perception of the return, complexity and risk (volatility, PR stunt, Trust) of SI. Table 2 in the appendix outlines the specific questionnaire items of the outlined constructs.

Control variables. Socio-demographic variables that are prevalent in research on pro-environmental behavior or SI were likewise included as control variables in this study. Compared to conventional investors, investors interested in SI appear to be younger, more educated, and female (e.g., Cheah, Jamali, Johnson, & Sung, 2011; Deni Greene Consulting Services, 2001; McLachlan & Gardner, 2004; Rosen et al., 1991; Schueth, 2003). We thus include advisors' age, gender and level of education as control variables. Further, research in the field of psychology emphasizes that the future time orientation of individuals has an effect on pro-environmental behavior (Milfont & Gouveia, 2006; Rabinovich et al., 2010). We therefore also include whether advisors have kids, i.e. heirs, as well as the age of their clients as control variables. Since the survey was conducted at two banks and subjects could choose between German and English we include a variable for the respective bank and language.

Data analysis. With a rather standard regression issue at hand we employ the ordinary least squares (OLS) regression model for the data analysis. In a first step the control variables are entered in Model 1, whereas no significant effects are identified. The independent variables are then introduced in Model 2. Since advisors work with a range of financial products that are usually complex, the Complexity variable is introduced as a binary in the regression model, with '1' for indications of SI as very complex, and '0' for values below that. Model 2 has good explanatory power with an adjusted R-squared of 0.36 at 95 total observations (Table 3).

3.5 Results

3.5.1 **Advisors' Level of SI Communication and Perception of SI**

About 25% of the covered advisors communicate about SI rather frequently with their clients. 35% rarely or never mention SI, while about 40% are indifferent. The average (median) advisor perceives the financial return and the volatility of SI as similar to that of traditional investments. 15% expect that SI performs substantially better than traditional investments, while 34% expect a lower performance. 17% relate a comparatively low volatility to SI, while 26% expect a higher volatility. Most advisors perceive SI as rather complex, have a low fear of SI being a PR stunt, and appear to trust the providers of SI products. In regard to perceived consumer effectiveness (PCE), most advisors appear to believe in a high or very high effect that investment decisions have on society or the natural environment. Further, most advisors appear to have a high or very high level of self-transcendent values (Table 4).

3.5.2 Regression Model Predicting Advisors' Level of SI Communication

A highly significant positive relation with SI communication shows for the Return construct ($p<0.001$), thus confirming Hypothesis 1. No significant effect is found for the Volatility construct, thus rejecting Hypothesis 2. A strongly significant effect is found for the Complexity binary ($p<0.01$), thus the perception of SI as highly complex relates negatively to SI communication (Hypothesis 3). We find a significant negative relation with the PR stunt construct ($p<0.05$), which supports Hypothesis 4. No support is found for Hypothesis 5, which relates to the effect of self-transcendent values. Hypothesis 6, related to the PCE construct ($p<0.05$), receives significant support; the same applies to the Trust construct ($p<0.05$) and Hypothesis 7. Strong support is also found for Hypothesis 8, which pertains to the effect of clients' wealth category ($p<0.01$). In regard to the effect of clients' investment time horizon, which pertains to Hypothesis 9, no significant relation is identified. The regression model is provided in Table 3.

Table 3: Regression model predicting advisors' level of SI communication

	Model 1	Model 2
(Intercept)	3.32 (0.86)***	1.91 (1.08)
Gender	−0.29 (0.33)	−0.33 (0.27)
Kids	0.04 (0.23)	−0.18 (0.19)
Education	−0.03 (0.06)	−0.10 (0.05)
Bank	−0.01 (0.21)	−0.09 (0.21)
Language	−0.02 (0.29)	0.01 (0.26)
Age	−0.01 (0.14)	−0.09 (0.11)
Age.CL	−0.02 (0.20)	−0.01 (0.16)
PCE		0.23 (0.10)*
vola		0.18 (0.13)
return		0.43 (0.13)***
ComplexityTRUE		−0.68 (0.24)**
PR		−0.23 (0.10)*
Trust		−0.26 (0.11)*
Values		0.01 (0.12)
Wealth.CL		0.56 (0.18)**
InvHor.CL		0.08 (0.13)
R^2	0.02	0.47
Adj. R^2	−0.06	0.36
Num. obs.	95	95

***$p < 0.001$, **$p < 0.01$, *$p < 0.05$

In terms of the correlations between variables, the variable correlation matrix that is displayed in Table 5 outlines no particular considerable relationships.

3.5.3 Real Options Logic as a Conceptualization of Advisors' Activity in Communicating about SI

We move along the four conditions outlined in the development of Hypothesis 10, drawing from the descriptive findings and the regression results.

The first condition is fulfilled, as we find a significant relation between the perceived financial return of SI and the level of SI communication. Thus, financial return matters to advisors in the SI context.

The second condition is not fulfilled. While we do observe an overall low level of SI communication, most advisors also do not expect a substantially better performance of SI. Thus, no substantial mismatch between the two aspects was found. However, the condition, in this form or reversed, might well be fulfilled for a share of advisors. As an indication, the 32 advisors that communicate never or rarely about SI also perceive SI as more risky and volatile than the sample average. The 23 advisors that show a high level of activity in communicating about SI also perceive SI as less complex than the average, have less fear of SI as a PR stunt, and more trust in SI product providers. They also perceive SI as slightly more volatile than

what the average was in this survey; yet that aspect did not turn out to be of significance in the regression model.

The third condition can be deemed fulfilled. A significant relationship between the communication of SI and three of the four considered variables related to complexity and risk was identified (Complexity, Trust, PR stunt; no support for the effect of Volatility). Thus, such aspects matter for advisors in the SI context, beyond just financial return.

The fourth condition is confirmed. A high absolute measurement level was found for the Complexity construct, and the variable was also found related to SI communication.

Overall, however, only a share of the advisors perceive SI as financially more attractive than traditional investments (condition 2), thus Hypothesis 10 cannot be confirmed; though it might well hold for a subset of advisors.

Hypothesis 11 differs from Hypothesis 10 through the modification of the second condition. In addition to financial benefits of SI communication, potential non-financial benefits are considered as well, namely self-transcendent values and perceived consumer effectiveness (PCE). We find that advisors on average perceive no difference between SI and traditional investments in terms of financial return. We do, however, find a high absolute level of potential non-financial benefits. Thus, the overall benefit of SI communication appears to be positive. This, together with the low observed level of SI communication, leads to the second condition being fulfilled. Since the first, third and fourth conditions are fulfilled as well, we deem Hypothesis 11 as confirmed. Therefore, the real options logic can be applicable to conceptualize the behavior of advisors in the context of SI, if non-financial benefits of SI communication are considered as well as financial benefits.

3.6 Discussion

3.6.1 Implications for Sustainable Investing Scholars and Practitioners

Our results show a low level of SI communication amongst advisors. The applied regression model shows a good explanatory power and identifies a number of particularly interesting relationships between SI communication and explanatory constructs, which we discuss as follows.

We do not find a significant relation between the volatility that advisors expect from SI and their level of SI communication. This finding is surprising and contrary to what we know from behavioral finance and specifically prospect theory (Benartzi & Thaler, 1995; Kahneman & Tversky, 1979). It is also contrary to findings on the behavior of people in decisions related to the natural environment (e.g., Karp, 1996; Schultz & Zelezny, 1999; Stern et al., 1999), or specifically in the context of SI (e.g., Lewis & Mackenzie, 2000). Therefore, the role of volatility in the context of the decision-making process of advisors generally and in the context of SI might deserve further scholarly exploration.

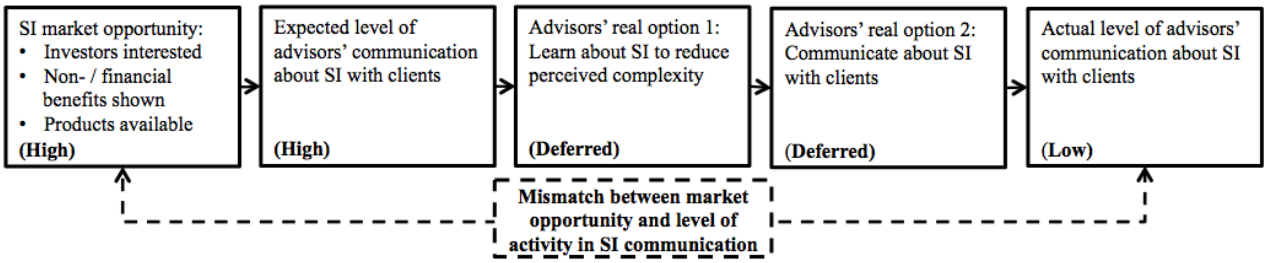
A significant positive relationship was identified for advisors' expected financial return of SI. This is in line with existing research (e.g., J. Nilsson, 2009) and confirms the importance of the popular investigation of the relationship between sustainability and financial performance (e.g., Orlitzky et al., 2003). For practitioners, this indicates that arguments related to the potential outperformance of SI solutions as opposed to lower volatility might be more effective to motivate advisors' SI communication.

Beyond the common focus in SI literature on financial performance (Gond et al., 2011), however, our results also indicate that the financial return of SI is *not* the only important aspect for advisors. In fact, we find that advisors on average perceive no substantial difference in the return and volatility of SI compared to traditional investments. It might rather be risks and complexity associated to SI that keep advisors from SI. In particular, we find that the complexity of SI could overwhelm not only investors (J. Nilsson et al., 2012), but also their advisors; to understand and mitigate this barrier might be of interest to scholars and practitioners alike.

It is specifically the significant role of perceived complexity, together with financial and non-financial return, that points us to the logic of real options as a potential avenue to conceptualize why most advisors communicate less on SI then what might be expected.

Surveys and market data on SI point to a market opportunity for advisors. Thus, a high level of advisors' SI communication could be expected. The real options logic and our findings on the as high perceived complexity of SI indicate that advisors might face the embedded real option to learn about SI, before the actual decision on SI communication occurs. To exercise this first option would reduce the perceived complexity of SI, and thus reduce the value of the (real) option to defer the latter decision to communicate about SI. Because the first option is deferred, however, advisors might be more likely to also defer the second option to communicate about SI, even against their expectation of attractive financial and non-financial benefits. This leads to an actual level of SI communication that our study and market data suggest is rather low. Thus, a mismatch is observed between the potential market opportunity of SI and the actual level of advisors' SI communication. This could provide an explanation to the observed SI gap; i.e. the low level of engagement in SI by private investors. The proposed conceptualization is illustrated in Figure 1.

Figure 1: Advisors deferral of two embedded real options leads to a mismatch between the market opportunity of SI and the actual level of SI communication



We invite scholars to test and further develop the proposed conceptualization. For practitioners and scholars alike, assessing the effect of trainings regarding SI (real option 1) on SI communication (real option 2) would be interesting. Particularly for practitioners, our results reiterate the importance of training and of reducing the actual as well as the perceived complexity of SI. This paper also indicates the way for a quantitative real option model that could shed light on the two mentioned options: the option to decrease SI complexity and to communicate about SI as well as on their characteristics: strike price, underlying value and risk.

3.6.2 Implications for Social Responsibility Scholars and Practitioners

Beyond the context of advisors and SI, we generalize a selection of our results to the context of salespeople advising consumers on products that consider social responsibility.

Contrary to previous findings from literature on the behavior of consumers, we did not find a significant relation between SI communication and advisors' self-transcendent values. Similar results have been obtained in the realm of management professionals. Jansson and Biel find that professional investors within investment institutions express self-transcendent values significantly less than their beneficiaries, and "investment institutions underestimate the importance of environmental, social and ethical issues for their beneficiaries but overestimate the importance of financial returns" (Jansson & Biel, 2011:141). Further, Craig and colleagues (1993) found that UNCED staff separate their personal desire for social responsibility values from their behavior at work. Nilsson and Biel (2008) arrive at similar findings in regard to business managers, who react more negatively on decisions related to social responsibility when they are in their professional role compared to when they are in their private role. Based on these and our findings, we suggest that salespeople are less receptive for social responsibility when they are in a professional role compared to when they are in the role of a private citizen. The identified focus on financial aspects, as opposed to self-transcendent values, might even incur a chasm in situations where clients care about self-transcendent values. This chasm could have significant negative implications for the dissemination and market success of products that specifically consider social responsibility, and might attract the attention of scholars and practitioners.

A similar pattern might occur in regard to socio-demographic variables. The relation between age, gender, education, etc., and pro-environmental decisions has been well documented in regard to private individuals. However, that relation was not found in our results in the context of advisors. This might be due to the responding investment advisors being situated in their working environment at the time of the survey, where they might decide different or opposed to their personal view. This pattern might arise with salespeople at large and further distance their actions from their personal preferences and the interest of their clients.

Lastly, our finding on the significant effect of the perception of SI as a PR stunt and the fear of untrustworthy product providers reiterates the corresponding suggestions by Nilsson (2008) and Crane (2000); practitioners that develop and market products that

integrate socially responsibility must provide strong evidence for the credibility of their products and the trustworthiness of their organization. That is especially true in light of frequently occurring cases of ‘greenwashing’ or outright scandals. Avenues and mechanisms to assess and manage the trustworthiness of the topic of SI and social responsibility and related solution providers might be a topic of relevance for practitioners, and provide fertile ground for future research.

3.6.3 Limitations and Further Avenues for Future Research

The geographical focus or size of our sample and the selection process may have influenced our results. We encourage scholars to further test and specify the effect of the aspects included in this study. To better understand the behavior of individual advisors, we encourage the introduction of concepts such as framing and institutional logics, which scholars interested in organizations have studied (Beunza & Garud, 2007; Rao, Greve, & Davis, 2001; Zuckerman, 1999), or the construction of investment advisors as frame-makers (Benford & Snow, 2000; Beunza & Garud, 2007). The difference in the role of self-transcendent values in a professional versus a private context might deserve further attention, such as through the specific application of Value Belief Norm (VBN) theory (Stern et al., 1999; Stern, 2000). Lastly, an assessment of salespeople across cultures would allow for the inclusion of the cultural distance variable from Hofstede's cultural dimensions theory (Hofstede, 1984), which is useful in understanding how different cultures operationalize social responsibility (Hawkes, 2001; Park, Russell, & Lee, 2007).

3.7 Conclusion

This is the first study that empirically investigates the role of investment advisors to explain the 'SI-gap' phenomenon, i.e. the low relative engagement of private investors in SI despite a high interest in SI. Our results indicate that advisors are not particularly active in communicating about SI with their clients. That is surprising, since market data suggests that SI is a business opportunity for advisors, and a chance to prove their financial worth to clients.

We develop a model of aspects that can help to explain why some advisors are more active in communicating about SI than others. No effect is found for the volatility that advisors associate with SI is surprising; a finding that is contrary to current literature and lends itself to further research. In line with literature, a significant relation is found between advisors' level of SI communication and their expected financial return of SI, as well as their perceived complexity of SI. This leads to the dynamic real options logic as a potential avenue to conceptualize the observed mismatch between SI as a market opportunity and advisors' low level of SI communication.

Overall, this study contributes to the understanding of the relationship between private investors and investment advisors. We provide insights into the understanding of SI by advisors to particularly wealthy private investors, and generalize our results to salespeople in the context of social responsibility. Therefore, this study explores micro-foundations of decision making by advisors and salespeople in the context of SI and social responsibility at large. For example, salespeople in the context of social responsibility might react less to their self-transcendent values or socio-demographic profile, and could systematically deviate from the interest of their clients.

Finally, we hope that this study provides a motivation to go beyond the common focus on the business case of social responsibility, and to create more attention for the important and interesting role of salespeople; for the benefit of salespeople and their firms, their clients and society.

Appendix

Table 2: Constructs (Cronbach's Alpha value), questionnaire items

QUESTION: To what extend do you agree with the following statements regarding your personal view / your clients / (name of bank)? *(5 point Likert scale anchored by do not agree at all and fully agree)*

SI engagement (.836)

- I regularly inform clients about the option of investing in SI in client meetings.
- I actively recommend options in the area of SI to clients as new or alternative investment options.
- SI does NOT belong to my standard offers when I talk to new clients about their portfolio composition. *(reversed)*
- I inform clients about SI only upon their request. *(reversed)*

Perceived consumer effectiveness (PCE) (adapted from Nilsson, 2007) (.744)

- By investing in SI every investor can have a positive effect on the environment.
- Every person has the opportunity to influence social problems by investing in responsible companies.

Complexity (.612)

- I personally perceive SI as a complex field.
- The field of SI is sufficiently defined for me. *(reversed)*
- I need more information to be confident about discussing the field of SI. *(reversed)*
- My clients have very different views about what makes a company sustainable (e.g., philanthropy; ESG).

PR stunt (.768)

- I personally perceive SI as a marketing stunt.
- SI is generally a fad that is used for short-term marketing purposes.
- The majority of my clients perceive SI as a marketing stunt.

Trust (.632)

- I trust that providers of sustainable mutual funds do not invest in companies that manufacture weapons and tobacco.
- I trust that providers of sustainable mutual funds do their best in trying to get companies to act in a way that reduces social and environmental problems.
- Providers of sustainable mutual funds can be trusted to follow the sustainability guidelines used in their marketing documents.

QUESTION: How important are the following guiding principles for you personally and for your life? *(5 point Likert scale anchored by not at all and very important)*

Values (following Stern et al, 1998) (.717)

- Protecting the environment, preserving nature.
- Support a world at peace, free of war and conflict.
- Social justice, correcting injustice, care for the weak.

QUESTION for measurement of Volatility *(5 point Likert scale anchored by -2 / much higher and +2 / much lower)*:

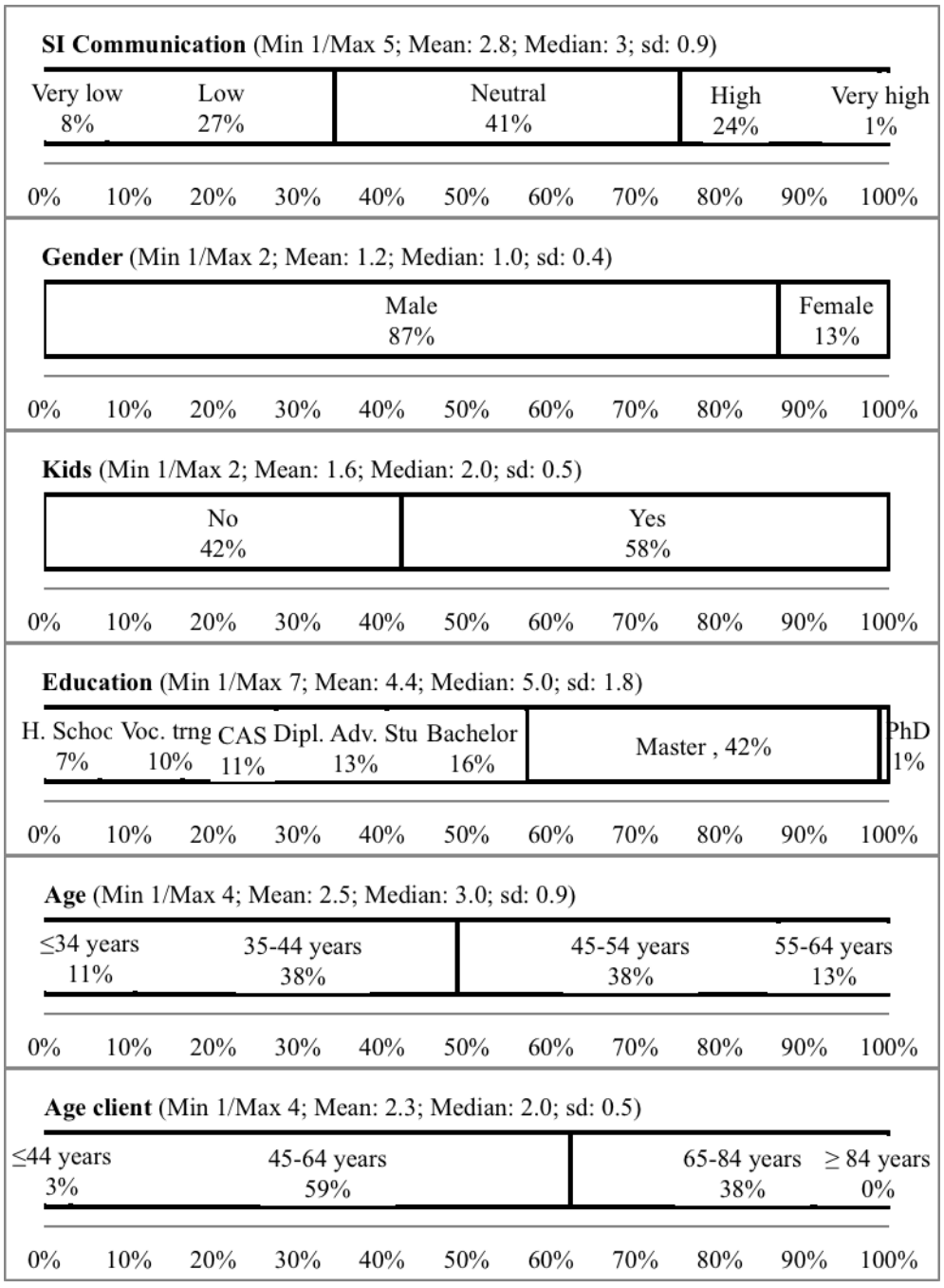
- How do you assess the general level of the risk, or the volatility of financial returns of SI

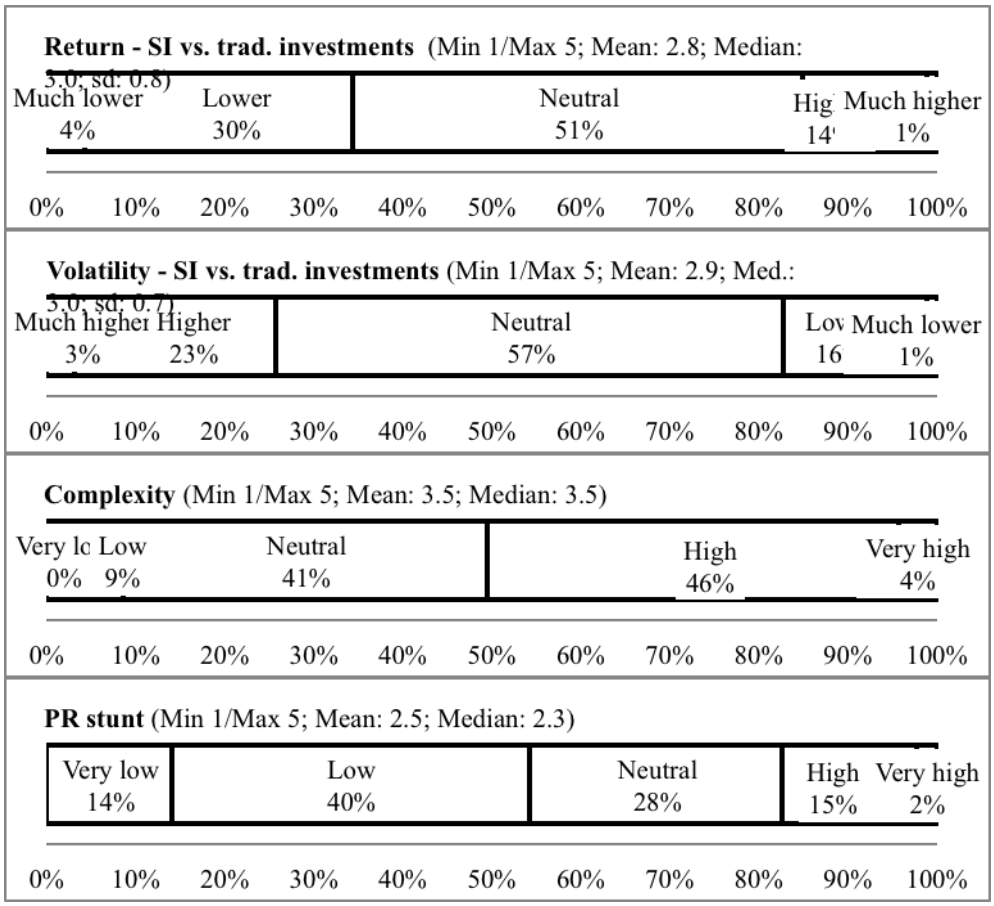
compared to traditional investments?

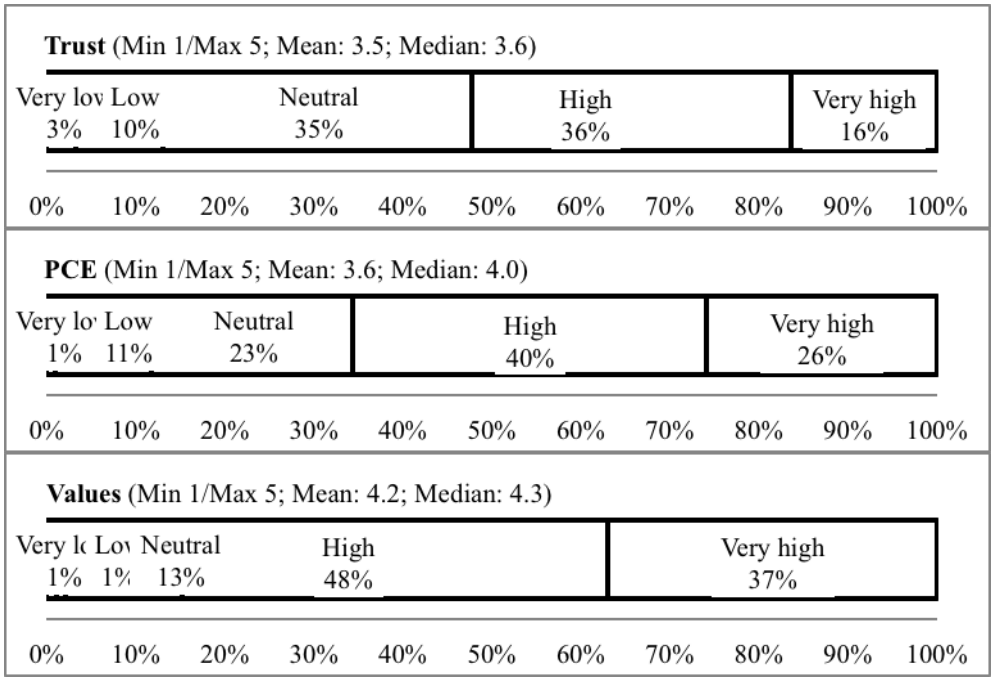
QUESTION for measurement of Return *(5 point Likert scale anchored by -2 / much lower and +2 / much higher)*:

- How do you assess the general level of financial returns of SI compared to traditional investments?

Table 4: Expanded descriptive statistics (N = 95)




Return - SI vs. trad. investments (Min 1/Max 5; Mean: 2.8; Median: 3.0; sd: 0.8)
Much lower 4%
Lower 30%
Neutral 51%
Much higher 1%
Volatility - SI vs. trad. investments (Min 1/Max 5; Mean: 2.9; Med.: 3.0; sd: 0.7)
Much higher 3%
Higher 23%
Neutral 57%
Much lower 1%
Complexity (Min 1/Max 5; Mean: 3.5; Median: 3.5)
Low 9%
Neutral 41%
High 46%
Very high 4%
PR stunt (Min 1/Max 5; Mean: 2.5; Median: 2.3)
Very low 14%
Low 40%
Neutral 28%
High 15%
Very high 2%
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%


Trust (Min 1/Max 5; Mean: 3.5; Median: 3.6)
Low 10%
Neutral 35%
High 36%
Very high 16%
PCE (Min 1/Max 5; Mean: 3.6; Median: 4.0)
Low 11%
Neutral 23%
High 40%
Very high 26%
Values (Min 1/Max 5; Mean: 4.2; Median: 4.3)
Neutral 13%
High 48%
Very high 37%
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

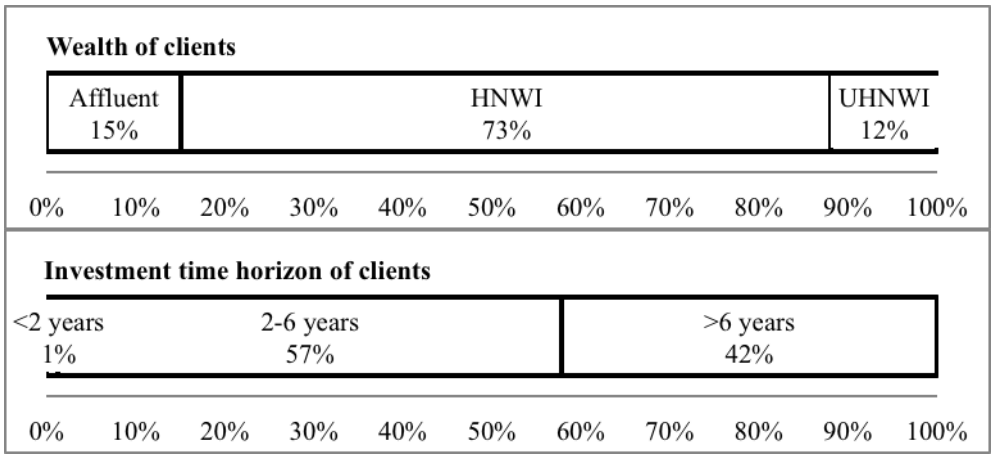


Table 5: Correlation Matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Gender	1.00															
2	Kids	-0.33	1.00														
3	Education	-0.03	-0.01	1.00													
4	Bank	-0.16	0.06	-0.02	1.00												
5	Language	0.01	0.07	0.17	0.22	1.00											
6	Age	0.13	0.29	-0.30	-0.06	-0.14	1.00										
7	Age.CL	0.16	-0.04	-0.11	0.09	0.09	0.26	1.00									
8	PCE	-0.07	0.03	-0.09	0.09	0.13	0.02	0.02	1.00								
9	vola	-0.09	0.03	-0.04	0.17	0.04	-0.07	-0.12	0.29	1.00							
10	return	-0.10	0.24	0.14	0.05	0.04	0.11	-0.17	0.16	0.46	1.00						
11	Complexity	-0.17	0.15	-0.13	0.01	-0.20	0.04	-0.14	-0.02	0.12	0.08	1.00					
12	PR	-0.07	-0.06	0.04	-0.14	0.17	-0.20	-0.10	-0.16	-0.10	-0.18	0.17	1.00				
13	Trust	-0.06	-0.03	0.02	0.10	0.06	-0.01	0.10	0.31	0.21	0.28	-0.32	-0.37	1.00			
14	Values	0.15	-0.08	-0.08	0.02	0.21	0.09	-0.05	0.33	0.24	0.11	-0.08	-0.07	0.19	1.00		
15	Wealth.CL	-0.10	0.16	0.17	-0.22	-0.09	-0.03	0.08	-0.08	0.08	0.06	0.08	-0.18	-0.04	0.03	1.00	
16	InvHor.CL	-0.11	0.05	-0.03	0.51	-0.18	0.04	0.17	-0.00	0.02	0.07	0.06	-0.32	0.17	-0.09	0.03	1.00

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4 Complex Markets vs. Complex Customer Needs: How Investment Advisors' Narratives Enable or Constrain Sustainable Investing

Abstract

Organization theorists have not analyzed investments advisors, although advisors play a key role in a finance-centered economy by making access to capital easier—or more difficult—for companies, sectors, or countries. We address this gap with a qualitative analysis of the narratives that investment advisors use to understand their role in the context of sustainable investing. Based on 22 interviews, we find two narratives: investment advisors at firms that lag in sustainable investing describe financial markets as highly complex, and their customers as simplistic, with sustainable investing a nuisance that they reject to deal with. In contrast, advisors at leading firms use a narrative that highlights customer needs as complex, and sustainable investing as the solution for problems of overly complicated financial markets. We thus document a complexity shift in investment advisors' narratives from complex financial markets to complex customer needs. These findings suggest that all types of investment firms, including those focused on sustainable investments, depend on "complexity" to sell financial services and products. We also contribute to research on sustainable investing by outlining how investment advisors' narratives either constrain or enable sustainable investing within investment firms, which has important implications for the mainstreaming of sustainable investing.

Key Words: complexity, investment advisors, narratives, private investors, sustainable investing

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Introduction

Over the last 30 years, financial markets have become the "brain of the economy" (Mishkin, 2006). Along this significant development, and in particular as a reaction to the financial crisis of 2008, organization theorists (e.g., Davis, forthcoming; Munir, 2011) started to call for more research on the different factors that contribute to this "movement toward a finance-centered economy" (Davis, 2009b, p. 27).

While organization theorists have investigated the role of some actors in financial markets, such as institutional investors (Davis & Thompson, 1994; Gond & Piani, 2013) and securities analysts (Beunza & Garud, 2007; Rao, Greve, & Davis, 2001), organization theorists have not analyzed the role of investment advisors. Investment advisors at banks and other investment firms consult and influence investors, i.e. their customers, on where they invest their assets. Advisors thereby make access to capital easier for some companies, sectors, or countries—and more difficult for others. They play a key role in a finance-centered economy, influencing the allocation of capital and what types of change occur in financial markets (e.g., Akerlof & Shiller, 2009).

Despite their influence on capital allocation, the economic value of investment advisors for their customers has been challenged as econometric studies find that their advice does not pay out for their customers (Hackethal et al., 2012; van de Venter & Michayluk, 2008). Indeed, studies over the last 40 years have found that most investors would be better off with a passive investment strategy that merely buys and holds a diversified portfolio (Fama, 1970; French, 2008; Malkiel, 1973).

Beyond research from financial economists on the outcomes of the interaction between investment advisors with their customers, however, the underlying mechanics of this interaction remain a "black box". Organization theorists should therefore use qualitative methods, which are complementary to the quantitative methods of financial economists, to open the "black box" of investment advisors' cognition and decision-making as the fundamental basis of their interaction with customers (Gond et al., 2011; Paetzold & Busch, 2014; Schrader, 2006).

One key element within this "black box" are the narratives that investment advisors use to make sense of their role. Narratives involve stories, a time sequence, focal actors, and "a sense of what is right and wrong, appropriate or inappropriate" (Pentland, 1999, p. 713). Actors use narratives to make sense of the world around them and to act in it (Haack,

Schoeneborn, & Wickert, 2012). Indeed, as Pentland (1999, p. 711) points out, narratives are "especially relevant to the analysis of organizational processes because people do not simply tell stories—they enact them." That is, narratives shape how investment advisors interact with their customers, thereby influencing investment decisions, and, ultimately, capital allocation in a finance-centered economy.

To study how investment advisors' narratives influence capital allocation we focus on how they enable or constrain a new investment approach: sustainable investing. Sustainable investing refers to investment practices that—in addition to financial return—take into account environmental, social, and governance considerations into investment decisions (Eurosif, 2012a). While today many investment firms offer such products, products in which the majority of private investors are interested in (Gallup, 2009; Wins & Zwergel, 2014), the market share of sustainable investing remains small, between 5 and 10% of overall investments (Eurosif, 2012a; US SIF Foundation, 2012). This conundrum indicates that in the context of sustainable investing, challenges exist at the nexus of investors and investment products, i.e. in the communication between investment advisors and their customers. This paper therefore raises the following research question: *What narratives do investment advisors use in the context of sustainable investing, and how do these narratives enable or constrain advisors to communicate with customers about sustainable investing?*

We address this research question with a multiple case study approach (Eisenhardt, 1989; Gibbert & Ruigrok, 2010) that compares investment advisors' narratives in investment firms that are either laggards or leaders in terms of their sustainable investing offering. Laggard firms offer sustainable investing products, but their investment advisors rarely sell such products; leader firms successfully sell sustainable investing products. Based on interviews with 22 investment advisors at such firms we identify the narratives that investment advisors use to make sense of their role and sustainable investing. We then analyze how these narratives enable or constrain sustainable investing within different investment firms.

We find two antagonistic narratives. In the laggard firm, investment advisors employ the *nuisance narrative*, which construes their customers as simplistic and sustainable investing as out-of-scope as it adds complexity to their work with financial markets that are already highly complex. In contrast, investment advisors at the two leading firms use the *savior narrative*, which stresses that customers have complex needs and positions sustainable investing as the solution to many problems of financial markets that are simple, but wrongfully complicated by non-sustainability focused actors. We thus find a *complexity shift*,

that is, a shift in terms of what the two narratives highlight as complex: In the laggard firm, financial markets are seen as exceedingly complex, while at the two leaders, investment advisors argue that financial markets should be simple, but that customer needs are irreducibly complex.

Our paper makes two major contributions. First, we contribute to the emerging organization theory literature on financial markets (Davis, 2009a; Marti & Scherer, 2014; Munir, 2011) by analyzing the influential yet precarious role of investment advisors. Our comparison of the narratives used within the laggards and leaders suggests that all investment firms depend on "complexity" to sell financial services and products. While investment advisors at the two leaders in their narrative deny that financial services are complex, they create another source of complexity, which lies in customers' needs. Second, our paper adds to research on sustainable investing (Markowitz, Cobb, & Hedley, 2012; Slager, Gond, & Moon, 2012) by outlining how investment advisors' narratives either constrain or enable sustainable investing. Our findings suggest that selling sustainable investing products might only be possible for investment firms that develop certain narratives, which can constitute a major impediment for large incumbents. This insight can provide a potent explanation for the limited mainstreaming and low market share of sustainable investing.

4.1 Theoretical Background

4.1.1 Narratives

Financial economists find that investment advice, on average, does not pay out for customers (Hackethal et al., 2012; van de Venter & Michayluk, 2008), but they do not open the "black box" of how investment advisors interact with their customers. To open that black box, we use a social constructivist approach (Berger & Luckmann, 1966) that builds on different assumptions than economic theory. Most economic theory assumes that individuals act in rational and self-serving ways (Abell, 2000; Scherer, 2003), that is, individuals assess the outcomes of different options and then choose the option that best serves their interests. This parsimonious theory of human behavior is the basis for many economic theories that provide useful insights into social phenomena that range from credit rationing (Stiglitz & Weiss, 1981) to bank runs (Diamond & Dybvig, 1983).

At the same time, this theory of human behavior is not ideal to explain some social phenomena (Scherer, 2003). This is particularly so when humans are embedded in strong

social relations, and under the influence of powerful cultural norms (Granovetter, 1985). To study human behavior under such conditions, many organization theorists draw on a social constructivist approach that sees individuals not as primarily rational but as influenced and shaped by societal influences. According to this approach, humans often act because they were socialized in specific ways, because they want to meet expectations from society or peers, or because they take it for granted that one has to act in a specific way without thinking about it (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

Social constructivist approaches have developed different theories to explore factors that shape human actions. These theories engage in an "inquiry from the inside" to understand how individuals see the world (Evered & Louis, 1981, p. 385). For example, some researchers explore the "institutional logics" (Thornton, Ocasio, & Lounsbury, 2012) that shape the worldview and actions of individuals. Other researchers look at how individuals "frame" (Benford & Snow, 2000) what is problematic about situations, and what would be possible solutions. Still other researchers analyze the "sensemaking" (Maitlis & Christianson, 2014) that actors engage in after they perceive discrepant cues in their environment. In this paper we use a narrative approach (Pentland, 1999; Rhodes & Brown, 2005) as a suitable perspective that has become widely used in organization theory over the last 20 years (Froud, Nilsson, Moran, & Williams, 2012; Hardy & Maguire, 2010; O'Neill, 2001; Wright, Nyberg, & Grant, 2012). A narrative approach is ideal for an inquiry from the inside when actors have already dealt with a new development—such as sustainable investing—for a certain time; whereas, for example, a sensemaking approach would be ideal to investigate how actors deal with a new development when first encountering it.

According to Pentland (1999), narratives involve a time sequence, focal actors, and give guidance on what is right and wrong. Such narratives, or stories that are part of a narrative and that people tell themselves and others, help individuals to see complex environments in a certain light and, ultimately, to act in these environments. People therefore "do not simply tell stories—they enact them" (Pentland, 1999, p. 711). This study analyzes narratives investment advisors use to understand their own role and their interaction with customers—in the specific context of sustainable investing, as outlined below.

4.1.2 Sustainable Investing

Sustainable investing (SI) describes variants of investment approaches that aim for financial, non-financial or combined returns through a focus on certain industries (e.g., clean technology), the exclusion of specific business activities (e.g., production of tobacco), or by

considering environmental, social, and corporate governance (ESG) criteria within investment decisions (Eurosif, 2014; Sandberg et al., 2008).

This expansion to traditional investment decision-making in financial markets can drive the equitable and resource-conscious development of society as a whole ahead (Clark & Hebb, 2005; Scholtens, 2006). For example, sustainable investing motivates businesses to improve their performance on sustainability measures as many firms today aim to "satisfy professional fund managers and meet the expectations of the capital market" (Williams, 2000, p. 6). Investors pursuing sustainable investing can also pressure businesses to strengthen their sustainability related activities and to move beyond greenwashing (Sparkes & Cowton, 2004).

The achievement of that potential, however, critically depends on whether sustainable investing is "mainstream or backwater" (Dunfee, 2003, p. 247), i.e. the share of assets invested along the principles of sustainable investing relative to overall assets invested in financial markets. That relative market share of sustainable investing remains rather low at between 5% and 10% of overall investments (Eurosif, 2012a; US SIF Foundation, 2012). Sustainable investing remains particularly neglected by private investors, even though surveys suggest that the majority of private investors are interested in sustainable investing (Eurosif, 2012b; Gallup, 2009; Wins & Zwergel, 2014). While private investors govern almost as many assets as institutional investors (USD 50 trillion vs. USD 80 trillion), private investors own just 3% of the total financial assets that are invested in sustainable investing in Europe, compared to 97% owned by institutional investors (Çelik & Isaksson, 2014; Eurosif, 2014; Shorrocks et al., 2013). As such, the sustainable investing-market potential amongst private investors "is far from being realized" (Schrader, 2006, p. 200).

In light of the low relative market share of sustainable investing, a body of research explores barriers for sustainable investing amongst institutional investors (for a review, see for example Juravle and Lewis, 2008). It remains largely unclear, however, why some individual, i.e. private investors practice sustainable investing while others do not (Glac, 2008). Most related studies cover private investor characteristics, motivations, and comparisons of different types of private investors, while barriers remain largely unexplored (for an overview and indicative exploration, see, e.g., Paetzold & Busch, 2014). This study answers to calls for the exploration of such barriers for sustainable investing, especially in regard to investment advisors that play a particularly important role in the context of sustainable investing (Paetzold & Busch, 2014; Schrader, 2006).

4.1.3 Investment Advisors

Investment advisors are diffusion agents of financial products and change agents (Rogers, 2003) in financial markets as they represent the main point of interaction between an investment firm and its customers (Schrader, 2006). The important relationship between private investors and investment advisors has been met with calls for a deeper understanding of the underlying mechanisms, especially following the 2008 financial crisis (Inderst, 2011; Mullainathan et al., 2012; West, 2012). While organization theorists have studied securities analysts (Beunza & Garud, 2007; Rao et al., 2001; Zuckerman, 1999), they so far have neglected investment advisors. This is an important gap given investment advisors' influence on how capital gets allocated within the economy.

Existing research indicates that private investors are overwhelmed by the breadth of information in regard to sustainable investing mutual funds (J. Nilsson et al., 2012), or lack actionable information on sustainable investing and suitable products (Eurosif, 2012b; Hummels & Timmer, 2004). It is especially in such situations that private investors rely on advisors to structure and select the most relevant information (Inderst, 2011). As such, sustainable investing provides advisors with the opportunity to add value to their services and allow for more salient business relationships (Eurosif, 2012b). This might be particularly attractive for advisors since the general benefit of their work for customers is increasingly challenged (van de Venter & Michayluk, 2008), since "advisors end up collecting more in fees and commissions than any monetary value they add to the account" (Hackethal et al., 2012, p. 521).

The low market share of sustainable investing indicates, however, that advisors are less active in communicating about sustainable investing than what the potential opportunity would suggest (Paetzold & Busch, 2014; Schrader, 2006). As such, this study explores why investment advisors appear to refrain from selling sustainable investing to their customers by analyzing investment advisors' narratives, and how these narratives constrain or enable selling sustainable investing.

4.2 Methods and Data

Given the research gap around the "black box" of how investment advisors understand their role and interaction with their customers, we chose an inductive, theory-building research approach. Data was gathered through semi-structured face-to-face interviews with investment

advisors, which allowed us to obtain the subjects' points of view in their own words (Kvale, 1996, 2007). In our analysis we applied the iterative process of analytic induction following an exploratory multi-case study approach (Eisenhardt & Graebner, 2007), which allowed us to identify and compare advisors' narrative patterns (Haack et al., 2012).

4.2.1 Research Setting

This study explores the narratives of investment advisors at private wealth management firms in Switzerland. Switzerland is "one of the world's leading financial centers and plays a particularly important role with respect to cross-border private wealth management, where it is number one in the world" (Eurosif, 2014, p. 61). A total of about 283 banks govern USD 6 trillion in assets under management, of which 50% originate from abroad (Swiss Bankers Association, 2014). Thus, Switzerland is of particular significance in the international wealth management industry, and provides a suitable choice of country for the empirical data collection of this study.

Furthermore, Switzerland is "widely acknowledged as a strong player in sustainable and responsible finance" (Eurosif, 2014, p. 61), with firms that are lagging in terms of offering sustainable investing products as well as those that lead in this regard. Empirical data for this study is collected at both types of organizations. One firm is a large private wealth manager whose offering includes sustainable investing products, yet with very little success in terms of the relative share of clients' assets invested in these products. We also cover two leading firms that have a strong focus on sustainable investing products. With sustainable investing being a rather new topic, both 'leader' firms are smaller than the 'laggard' firm in terms of staff and client assets. As this paper focuses on narratives, which are largely unrelated to company size, differences in size are no impediment for our research design. Comparing the two types of firms allows us to contrast, identify, and compare significant differences in story elements and aggregate narrative patterns (Haack et al., 2012).

The investment advisors that are covered in this study usually serve customers that have more than USD 1 million in freely investable assets at their disposal. We focus on the segment of wealthy private investors for three reasons. Firstly, such wealthy private investors are economically significant, governing more than 40% of global household wealth while making up only 0.7% of the world population (Shorrocks et al., 2013). Secondly, these customers tend to be older, more educated individuals (see, e.g., Fidelity Investments, 2012) that work with advisors in a close dyadic relationship (West, 2012). Third, wealthy private investors appear to be interested in sustainable investing, but at the same time are

underrepresented in terms of total assets invested in sustainable investing (Eurosif, 2012b, 2014; Paetzold & Busch, 2014). As such, although the relationship between advisors and wealthy private investors lends itself to scholarly work and is required (Schrader, 2006), corresponding research is rare or non-existent, possibly due to the secretive nature of the private wealth management industry (Paetzold & Busch, 2014).

4.2.2 Data Collection

We conducted semi-structured interviews following the process proposed by Kvale (2007), allowing the stimulation of subjects narration of, first, their own role, second their clients and firm, and, third, sustainable investing. Based on the research question of this study, the interviewees are investment advisors, i.e. wealth management staff with constant or occasional customer contact in the context of advising private investors on investment decisions.

The process of selecting interviewees was based on the constant comparative method and in particular the concept of theoretical sampling (Glaser & Strauss, 1967). The desired interviewee profiles and questions were defined based on initial theoretical ideas. Following each interview, the questions and interviewee profiles were reviewed in order to identify emerging theoretical ideas (Yin, 2003a), and to strengthen the questions' internal and construct validity (Gibbert et al., 2008). Particularly insightful were interviews with advisors that represent polar types in regard to their function and seniority, affinity with sustainability, and affiliation with a laggard or leader firm. The spectrum of interviewee profiles was covered at each firm.

After 22 interviews, additional theoretical insights became marginal and we thus stopped the data collection (Eisenhardt & Graebner, 2007; Eisenhardt, 1989; Yin, 2003a). A list of the interviewees is presented in Table 1. To ensure confidentiality the interviewees are named and numbered as Lead_A for one leader firm, Lead_B for the other leader firm, and Lag for the laggard firm. All interviews were recorded and transcribed. The interviews lasted 60 minutes on average and were conducted mostly in German; the authors translated such quotations presented in the findings section.

Table 1: List of interviewees

Code	Function	Date	Length in minutes	Language
Lead_A1	SI expert	13-May-2014	42	German
Lead_A2	Chairman	22-Jan-2014	47	German
Lead_A3	Advisor	16-Dec-2013	79	German
Lead_A4	SI expert	13-May-2014	56	German
Lead_A5	COO	17-Apr-2013	68	German
Lead_A6	CEO	8-Nov-2014	18	German
Lead_B1	Advisor	27-Nov-2013	64	German
Lead_B2	Advisor	3-Dec-2013	78	German
Lead_B3	SI expert	14-Feb-2014	69	German
Lead_B4	CEO	14-Jan-2014	44	German
Lead_B5	SI analyst	18-Dec-2013	75	German
Lag_1	Advisor; market head	23-Oct-2013	59	German
Lag_2	Advisor	16-Oct-2013	68	German
Lag_3	Advisor	27-Nov-2013	68	German
Lag_4	Advisor	19-Nov-2013	70	German
Lag_5	Advisor	18-Nov-2013	56	German
Lag_6	Advisor	11-Dec-2013	65	German
Lag_7	Advisor; desk head	21-Oct-2013	97	German
Lag_8	Advisor	22-Oct-2013	70	English
Lag_9	SI expert	11-Dec-2013	49	German
Lag_10	SI expert	2-Dec-2013	71	German
Lag_11	SI expert	8-Nov-2014	13	English

4.2.3 Data Analysis

The software NVivo was used to code and analyze the collected data. The data analysis had three phases and was based on the approach of analytical induction and pattern matching (Eisenhardt, 1989; Yin, 2003b). In the first phase, we applied the process of open coding to two thirds of the interview manuscripts based on initial theoretical ideas. This yielded a set of 71 story elements; i.e. recurring patterns of aspect interpretations (e.g., ‘customers are overpowered by advisors’, or ‘sustainable investing performs poorly’).

In the second phase, we identified clusters and patterns of story elements to iteratively validate emerging structures of surface stories (e.g., ‘financial markets are complex due to high regulation and irrational market developments’). Surface stories can be likened to what is called ‘constructs’ in variance-based research, or “conceptual models used in explanations of observed data” (Pentland, 1999, p. 711). Based on these insights we developed and applied a codebook that also included open coding categories to capture new story elements.

In the third phase, emerging surface stories were iteratively applied to validate emerging patterns of narratives, which were then critically reviewed based on the underlying original text passages. A narrative provides the framework wherein the latent sequence and meaning of stories becomes visible, as outlined in the Findings section.

4.3 Findings

In this section we outline the identified narratives, i.e. "the ways in which individual narrators come to understand and articulate their social 'reality'" (Stalker, 2010, p. 4). Examining our data we identify two predominant narratives: the nuisance narrative and the savior narrative. We outline the narratives and their constituting surface stories based on the structure developed by Haack et al. (2012), followed by a comparison of both narratives.

4.3.1 Laggards' Narrative: Complex Markets and Sustainable Investing as a Nuisance

The *nuisance* narrative construes sustainable investing as out-of-scope as it adds complexity to processes and situations that are already complex. It is solely told by representatives of the laggard case and can be summarized as follows:

Nuisance narrative: sustainable investing adds even more complexity to financial markets that have already become very complex and difficult to navigate. Customers might be interested in sustainable investing, but overall are simplistic in that they are busy with their lives and seek an easy way to manage their wealth and related family aspects. Advisors help their customers navigate complex financial markets by building long-term trusted relationships that extend to customers families. However, advisors are also salespeople; they ignore sustainable investing because it is a 'Pandora's Box' of difficult questions, or a nuisance, that takes too much time to discuss and challenges advisors technical efficiency.

The nuisance narrative begins with the *complex markets* story that describes financial markets as an increasingly challenging and risky environment to navigate, and introduces the responsible actors. The story illustrates that how investment advisors see financial markets has a substantial influence on how they see sustainable investing. On one hand, regulatory changes and requirements constitute "by far the biggest challenges"; they are inflicted by regulators "from abroad, in Switzerland, from the bank, [on] various levels", and are comprehensive in effecting financial markets "in a global sense, in a holistic sense" (Lag_2). Especially since the financial crisis that started in 2008 led to an

increase in regulation, "having the time to really get into an in-depth conversation with the customer [is] the biggest roadblock" (Lag_8) for advisors to discuss sustainable investing.

On the other hand, financial markets have become fast-paced, as other investors utilize technology to operate globally, and government interventions incur illogical and counter-intuitive developments. As such, managing customers' investment portfolios has become more difficult, because "since 2008 … none of the logical models work anymore" (Lag_1), a situation wherein one has "to analyze the portfolio again and again, because things change so fast" (Lag_6). This speaks against the consideration of sustainable investing, since "sustainable investing just lags that development, because these days other criteria matter" (Lag_1). Beyond these specific developments, the story puts into question the financial performance of sustainable investing generally, since "if you consider the whole definition of 'sustainable', then you have the problem that you can't produce economically" (Lag_4), or looking for sustainable firms one would find "zero of those, so you will hold only cash" (Lag_5).

Overall, the *complex markets* story is the focal point in the narrative in regard to the positioning of financial markets as the main source of complexity, complexity defined as "the number of items or elements that must be dealt with simultaneously" by actors (Scott, 2003: 230). The story positions regulators, governments and other investors as parties that inflict that complexity; focal actors against which advisors position themselves in the later following *trusted salespeople* story. The *complex markets* story also provides the background against which advisors serve their customers, as introduced in the following *simplistic customers* story.

The second story is that of *simplistic customers*, professionals that are very busy with their life and that seek an easy way to manage a breadth of changing aspects regarding their wealth and related family aspects, with a latent but ambivalent interest for sustainable investing. Customers "have to take care of many other things", and simply outsource the management of their wealth; "and we'll speak again in three or six months" (Lag_5). In the *simplistic customers* story, customers sometimes "do not act rationally", and some "cannot really be advised although it would be the best for them" (Lag_3). *Simplistic customers* rather want to have advisors navigate potentially difficult wealth-related topics between family members, such as inheritances, as "they can't mention that, but because you really know the entire family, and you have another role, you can approach them" (Lag_6). Customers' interest in sustainable investing is latent but ambivalent, since they "are businessmen themselves with a certain pragmatism in the sense that they say 'I want profit and I don't care

about sustainability'"; at the same time, however, they say: "I am a business man … we have to produce somewhat sustainable anyways" (Lag_2). Therefore, "the conclusion is that many customers say [that sustainable investing] doesn't matter, but there are the customers that have an exclusions process [i.e., they implement sustainable investing principles] and I see that a lot more in reality" (Lag_2).

Overall, the *simplistic customers* story introduces customers as a focal actor, as well as their motivation to access various investment solutions and the management of their wealth and related family issues. The alleged simplicity builds a tension between customers and complex financial markets that is released by the introduction of advisors in the following *trusted salespeople* story.

In the nuisance narrative, the tension between complex financial markets and simplistic customers finds its resolve within the story of advisors as *trusted salespeople*. Advisors are *trusted* long-term partners that take the complexity-threat away from customers and their families. As such, "the goal of an advisor is to build a long-term trusted relationship … a position where one accompanies the customer life-long on that finance side and everything related to that" (Lag_7). To build that trust, advisors seek opportunities to effectively and efficiently prove the personal commitment to customers, as well as to other members and generations of the family; one example is given as follows: "I make a point of taking [the customer's] youngest daughter horse-back riding … building a relationship with the next generation of the family; costs me nothing" (Lag_8). The advisor is presented as focused on carefully and strategically building trust, while exploring customers' needs as the basis for the business relationship, as illustrated in the following statement: "I spend a lot of time on a plane traveling to see customers to meet them face to face to build that trust and to extend the share of wallet that we have from our customers" (Lag_8).

It is at this point that the *salespeople* aspect comes into the story, with the advisor holding an ambivalent position between the interests of customers and the bank. Beyond the pure focus on customers' interests, "a good advisor is a person of trust in all financial matters for the customer, on whichever level or service, that sells or offers the services of the bank most optimally in the interest of both sides, the customer and the bank" (Lag_2). Advisors are also "ideas- and storytellers, and story-sellers" that "always have to come up with newer and better models, like the car industry [that sells new models every year]" (Lag_1).

When sustainable investing, then, is introduced to the setting of advisors as *salespeople*, however, sustainable investing is considered as out-of-scope. This is not because sustainable investing would not be interesting for customers, since "in fact, sustainable

investing is coupled with systematically selecting firms that in the near or far future will be better anyways, simply because in the end they work more efficiently" (Lag_3). Rather, investment advisors tend to ignore sustainable investing because they see this investment practice as a threat to their technical efficiency (Meyer & Rowan, 1977; Zucker, 1987): "Stupidly, if a customer were totally interested [in sustainable investing], he would come back with a lot of questions. … Well, if you open the Pandora's Box, a lot of questions come back. … How much do I invest for [discussing sustainable investing with customers]? How much return do I get back? … Sorry, this sustainability topic could be a big one, no question, and personally I find it a massively good topic; but purely as a businessman, it's a question of efficiency … so I just leave it." (Lag_2).

In summary, the *trusted salespeople* story introduces advisors as the focal actors that help simplistic customers to navigate financial markets that become ever more complex due to the activities of regulators and other investors. Against that backdrop, advisors decide to ignore sustainable investing; a Pandora's Box', or *nuisance*, of additional information that would have to be processed in the context of sustainable investing (Nilsson, Siegl, & Korling, 2012).

As such, advisors refrain from sustainable investing as it appears to compromise what they perceive as technically efficiency (Meyer & Rowan, 1977; Zucker, 1987). Thus, the claim of advisors to provide their customers with all products that could be helpful for them, or "simply to realize what the person wants, and to react accordingly" (Lag_3), might be more 'ceremonial' than actually implemented (Meyer & Rowan, 1977).

In terms of its structure, the nuisance narrative is complete with three sequential stories and "a clear beginning, middle, and end" (Pentland, 1999, p. 712). The stories introduce the focal actors in their setting, their motivations and relevant events, and taken together allow the construction of a causal connection between them. The result, or "evaluative frame" (Pentland, 1999, p. 712) of the narrative is that sustainable investing is out-of-scope for advisors. Table 2 presents the surface stories that underlie the narrative, as well as the story elements and illustrative example quotes.

Table 2: Nuisance narrative: Underlying surface stories, story elements, and illustrative example quotes

Surface stories	Story elements	Example quotes
Complex markets	Disruptive regulation	"I think the challenge for an advisor today is the fast growth of regulation. … You are constantly in a cover-my-ass position. … I think it is not about making five or ten or 15 percent of return, but about protecting the worth of the wealth for the client in all circumstances … with all the issues that they have in their countries, with the currency, with all the taxes, all these new issues, that have come forward" (Lag_6)
	Erratic markets	"I think everyone realized since 2008 that the buy-and-hold model has actually died. You have to analyze the portfolio again and again, because things change so fast" (Lag_6)
	Poor performance	"Well, often the production of sustainable products is more expensive. … I think [sustainable investing] should have a space in today's society … for those that want to do something good for themselves mentally" (Lag_4)
Simplistic customers	Broad needs	"My clients … built up companies, and one could see how they grew and how everything changed, the different needs, that hey had during any point in time" (Lag_3)
	Delegate wealth management	"I see that many clients have to take care of many other things and don't want to have to deal with buy-or-sell decisions. Instead, they say:" You take this over and we'll speak again in three or six months. I want it to be invested in such and such a way"" (Lag_5)
	Irrational	"… and when you come into the finance world, you realize that it's all psychology. … There are theorems that say rationality is paramount. But I really must say: No. When it comes down to decisions, people do not act rationally. … Sometimes the person wants to pick up an advice that, in fact, is not ideal, but that the person feels good with personally" (Lag_3)
	Cover the family	"… you know a lot about the family, about the children … they ask you if you could discuss the whole inheritance-thing with the dad … they can't mention that, but because you really know the entire family, and you have another role, you can approach them … and that's really valued by the clients" (Lag_6)

	Ambi-valent interest	"Many clients say that [sustainable investing] doesn't matter. But there are the clients that have an exclusions process and I see that a lot more in reality. They don't come and say, in a positive sense "I only want sustainable investing or green", or whatever, but they just say "I don't buy that and I don't give my capital into such a firm"" (Lag_2)
Trusted sales-people	Strategic focus on building trust	"I spend a lot of time on a plane traveling to see customers to meet them face to face to build that trust and to extend the share of wallet that we have from our customers" (Lag_8)
		"The goal of a relationship manager is to build a long-term trusted relationship. That you get into a position where one accompanies the client life-long on that finance side and everything related to that. … That you really succeed with this trust basis" (Lag_7)
	Across ge-nerations	"A client of mine ... is the second generation of a family that I know. I make a point of taking his youngest daughter horse-back riding … building a relationship with the next generation of the family; costs me nothing" (Lag_8)
	Salesman-ship	"We are ideas- and storytellers and story-sellers. … What we advise is essentially this: I sell, it's always about an advisor and a sale. I sell my view of the world. … We always have to come up with newer and better models, like the car industry. We say: 'You already have a BMW, but we have got the new 5-series just here. We can trade that in now. … We try to – I always come back to the BMW – to bring something new to the client, something that he does not have yet, and that he would not get from the other [investment firms]" (Lag_1)
	Too complex	"[Sustainable investing] always sounds great. … But … sustainable investing is not a concrete approach like value or growth are… it's very complex, complex" (Lag_1)
		"I feel [that talking about sustainable investing] is relatively difficult. But I have heard from colleagues at other banks that it's doing quite well" (Lag_5)

4.3.2 Leaders' Narrative: Complex Clients and Sustainable Investing as a Savior

The *savior* narrative develops the argument of sustainable investing as the solution to many problems of financial markets. This narrative was used by advisors at both leaders in remarkably similar ways and only differed in respect to the weight of ethical versus financial merits of sustainable investing. This narrative can be summarized as follows:

Savior narrative: Financial markets might commonly be perceived as complex, but are overly complicated in the interest of advisors that are really salespeople, and that are detached from the interests of the customers and the real world. Sustainable investing as a 'savior' solves many of these problems. Together, customers and advisors form a community to develop that solution ahead.

The narrative is comprised of three stories, the *flawed markets* story, the *savior* story, and the *community* story. The *flawed markets* story acknowledges that financial markets are often seen as complex, but develops the argument that this is because 'traditional' (i.e., not sustainable investing focused) actors within financial markets have over the past decades created that complexity to the disadvantage of customers and the natural environment. The story begins by describing and challenging the focus of traditional advisors on quantitative analysis. In traditional advisory "all the energy goes into inventing new mathematical [analysis tools]", which is "ever farther away from the customer; the customer doesn't want that at all"; a criticism that extends to the natural environment, as "the purpose of the finance industry is, simplified, to make money with money…[and] lost touch with the real things of life"; the finance industry therefore „has become decoupled [from customers and the natural environment]" (Lead_A2). The focal actors are customers and traditional advisors in a "situation in financial markets where a customer expects advice and sits across from an advisor…. But really it's a product salesperson. … So you have someone who is really relying on trust; on the other side you have someone who might misuse that trust" (Lead_A2).

The result is that "many customers have been pushed into products that they did not really want"; the reason being that traditional advisors' primary concern is "only about the bonus and revenue"; while this used to be less so in the past, when "there used to be really the [trustworthy] 'bankier'. And then the bankier became a 'banker' or 'private banker' and that has led to completely wrong incentive structures" (Lead_A3). The message of the story is that these "conflicts of interests towards the customers are enormous. The opacity for the customer is higher than in any other industry", with

traditional advisors being like “criminals, really, but they are not recognized as such” (Lead_A2).

Overall, the *flawed markets* story introduces the focal actors of customers that over the past decades have become overpowered by ‘traditional’ advisors that act as salespeople and overcomplicate financial markets for their personal gain. As such, the story provides the backdrop for sustainable investing as the savior solving many of these problems, as outlined in the following story.

Against the background of the *flawed markets* story, the *savior* story first establishes sustainable investing as the logical or better type of investment process, since sustainable investing-related “risks and opportunities … should be considered by a good portfolio manager or analyst anyways”; and establishes sustainable investing-focused advisors accordingly, which state, for example: “If I analyze a firm, and the firm is an iceberg, then I see more of the iceberg if I integrate sustainability criteria” (Lead_B3). Thus “when you invest sustainable, for a certain period, you’re doing at least as well [as with a traditional investment portfolio]” (Lead_A3). As such, sustainable investing is about “going back to the roots” (Lead_A5) of investing, and sustainable investing-focused advisors understand investments “similar to the beginning of my career in the late 80s. We buy firms [i.e. stock equity] where we know what they produce…”, whereas „[traditional] advisors today, they could just sell products that they don’t understand themselves” (Lead_A3). Further, advisors through sustainable investing also “have gotten rid of all those conflicts of interests” (Lead_A2). They are “transparent on costs; the customer knows who earns how much“, which, similar to the back-to-the-roots type of investing, is “in a way the rediscovery of the most normal thing” (Lead_A5).

Thus, the story positions sustainable investing and advisors through sustainable investing as the ‚savior‘; focal actors that help customers that are overpowered by the ‘traditional’ advisors that established flawed, overcomplicated financial markets. The realization of that solution is then illustrated in the *community* story.

In the *community* story, sustainable investing-focused advisors distinctively distance themselves and their organization from flawed traditional financial markets. The following statement makes a specific illustration: “I don’t think we see ourselves as a bank. We don’t call ourselves bankers”; instead the position illustrated is that of collaborating with customers “to make a contribution, together with our customers, to move the finance world, the capital markets, and this sustainable development somehow onto a sensible trajectory” (Lead_B4). As such, the sustainable investing focused wealth

management firm is “not a bank … that’s a community” of likeminded advisors and clients (Lead_A2).

In its illustration of customers, then, the story recognizes that “everyone has different ideas about what sustainability is and how it relates to his money“, yet advisors accept that „to bring that together is certainly one of our main tasks” (Lead_B4). Customers are „very demanding”, as they “want to feel ‘what’s happening with my money’” (Lead_A3). To fulfill that need, strong emphasis is put on discussing details of specific investment themes and firms. Advisors overcompensate for potential confusion about sustainable investing with extensive reporting, as “every customer gets a reporting on the sustainability and financial information on the firms in their portfolio” (Lead_A1); or “when I see my customers, it’s very important to … bring my customer two or three examples so that they can see what thoughts we applied that they have that position in their portfolio. And that’s not always easy, as every human is different and has a different background” (Lead_A3). The complexity of customers’ interests in sustainable investing, which goes beyond just financial performance data, is used to contrast, again, sustainable investing against overcomplicated traditional markets. Markets should be simple, and the focus is put on actual investments and customers’ interests instead:

“We consciously provide the customers with two- to three lines on the sustainability aspects of each of the securities in their portfolio, which is a heck of a lot of work. That’s always like “the (financial) performance in Q3 was such and such …”, but on the sustainability aspects, that’s where we always get very good feedback. … When I compare that to my last firm; we don’t just talk about performance … that’s done in 30 seconds. It’s about content” (Lead_A3).

In sum, the *community* story serves to illustrate how sustainable investing-focused advisors together in a *community* with customers engage sustainable investing as a *savior* to resolve the problems that were outlined in the *flawed markets* story. The community story as well as the savior narrative overall contrast sustainable investing against specific aspects that appear in the nuisance narrative as well, specifically in regard to the mentioned but criticized discussion of complex financial markets and advisors as salespeople. As such, contrasting images, such as bankers and non-bankers, are employed to develop and complement the arguments of the savior narrative. Table 3 below again presents the surface stories that underlie the narrative, as well as story elements and illustrative example quotes.

Table 3: Savior narrative: Underlying surface stories, story elements, and illustrative example quotes

Surface stories	Story elements	Example quotes
Flawed markets	Overly compli-cated	"Most energy is spent on internal conflicts, it's all male driven, and that leads to that nothing in the finance industry is really developed for the future. All the energy goes into inventing new mathematical things, ever farther away from the client. The client doesn't want that at all. … I realized in the past that we were not really advising our clients honestly" (Lead_A2)
	Decoupled from nature	"The purpose of the finance industry is, simplified, to make money with money… one has lost touch with the real things of life, to the things on this table here, to clothes, food, drink. … The finance industry has become decoupled" (Lead_A2)
	Conflict of interest	"Many clients have been pushed into products that they did not really want. If the incentives are wrong, that's the problem ... if it's only about the bonus and revenue" (Lead_A3)
		"The conflicts of interests towards the clients are enormous. … We have the topic of exorbitance in our economy today" (Lead_A2)
Savior	Better; back to the roots	"I think we are going back to the roots. We can explain our client exactly what's in his portfolio; we know pretty well what the companies do. The client knows where his money is invested" (Lead_A5)
		"We defend ourselves against the sustainability topic being seen only in the ethical, ecological or green corner. For us, sustainability is a risk-tool, if you wish; the conviction that the integration of extra-financial aspects in the valuation of companies and asset classes, aspects that the traditional financial analysis usually does not consider, allows me to build more robust and better portfolios" (Lead_B1)
	Solved conflict of interest	"We are also transparent on costs. The client knows who earns how much. … that's something taken for granted for us. … that's the rediscovery of the most normal thing. It's a bit paradox … an open and transparent business model is apparently stuff to talk about, because it does not adhere to the norm" (Lead_A5)
		"If we would … pay out huge bonuses, our clients would not understand that" (Lead_A2)

Commu-nity	Not banks/ bankers	"Q: You just mentioned that you would never have worked for a normal bank? A: No, never … when we grow, we really have no idea yet where will get these advisors. But we are convinced that we will not get them out of the industry as it is now … frankly, I think the industry needs a totally different type of advisors" (Lead_B2)
	Common interest	"One thing that differentiates us … we do no client segmentation when we have events. We have one event per year. And we invite all clients to that, if old or young, if small or large. And that's no five-star gala dinner, but that's usually talks. Content-driven in the field of quality of life. … That's actually a common factor of the community … It's like, we are not a bank … that's the community - that's the point where we all like to meet and talk, all together" (Lead_A2)
	Complex clients	"Our clients are very demanding. … Such clients are the biggest challenge for us. And that's where we learn a lot, as they do from us" (Lead_A3)
		"Our clients have ideas about energy supply, about social topics, about human rights and such; sometimes very deep, very informed – or not, or a bit unrealistic or so. And the coaching and guidance and the interaction about these topics with the clients is certainly one of our main tasks" (Lead_B4)
	Overcom-pensate	"Every client gets a reporting on the sustainability and financial information on the firms in their portfolio. … And, well, they really track that, and are very interested. I don't know if I would read all this, but they do" (Lead_A1)
		"I feel that the clients value if I can tell them that Danone fulfills our sustainability criteria for these and these reasons. Nestlé has 22 pages of controversies. I´ll read five pages to you, then everyone will say: "I believe you"" (Lead_A3)
	Fin. return is trivial	"We don't just talk about performance, but about content. … all these creative figures that were invented in the past 20 years, that doesn't interest the client by far … that's done in 30 seconds. And then it's about content" (Lead_A3)

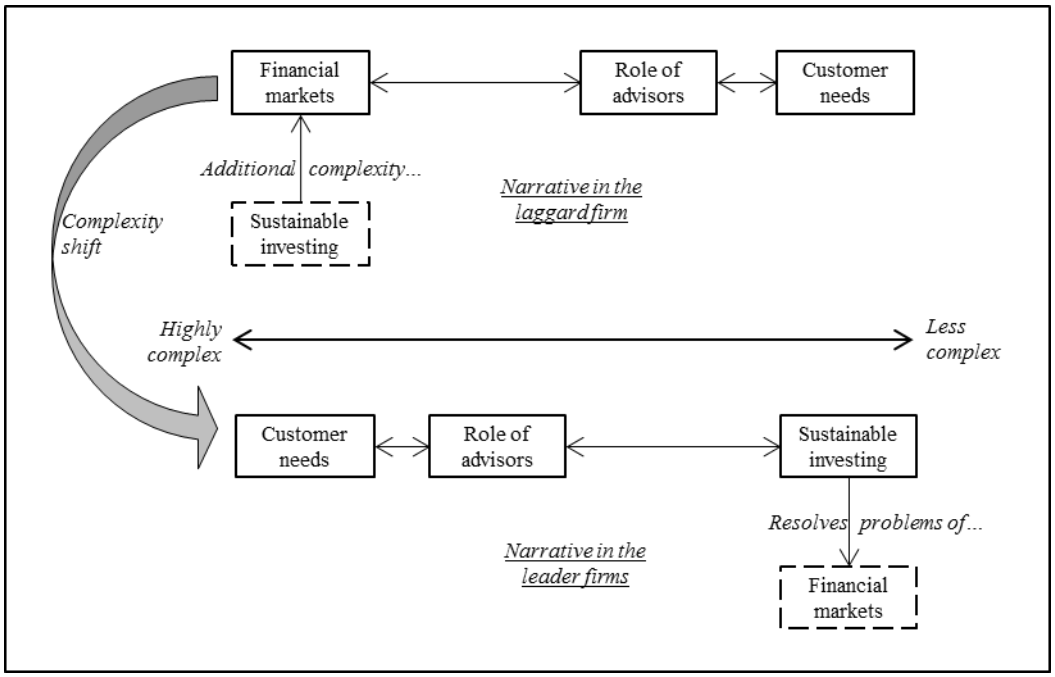
4.3.3 Comparing Narratives: Leaders' Complexity Shift

We now compare the two narratives by analyzing what is seen as the main challenge in each narrative and what is seen as the solution. In the nuisance narrative, investment advisors describe financial markets as exceedingly complex, whereas customer needs are seen as relatively straightforward. In this narrative, investment advisors see their role as building trust with customers and to 'protect' them from complex financial markets.

By contrast, the savior narrative describes financial markets and investment services as something that should ultimately be simple. In the savior narrative, existing financial services are chastised for being unnecessarily complex and ridden with conflicts of interest. The problem for investment advisors that follows from his narrative, however, is that simple financial markets tend to undermine the position of investment advisors, as customers would not need costly investment advisory services in such a scenario.

Interestingly, the savior narrative circumvents that challenge as it opens up a new source of complexity by describing customer needs as multi-layered and highly complex. Most investment advisors at the sustainable investing-leading firms assume that, ultimately, most customers care about sustainability but that they do not have a clear image of what they want, and that it is complex to identify and match these interests with investment products. In this narrative, investment advisors carve out a new niche for their services: rather than helping simplistic customers deal with complex markets, they help customers find investment solutions that correspond with customers' complex needs. The two narratives also have clear implications for the role of investment advisors: At the laggard firms, where investment advisors describe customer needs as less complex (see the simplistic customer story), investment advisors also see their role as less complex (see the trusted salesperson story). By contrast, at the leader firms, seeing customer needs as highly complex also implies that investment advisors see their own role as more complex. We describe this shift from complex financial markets to complex customer needs as a *complexity shift*. Figure 1 illustrates this complexity shift.

Figure 1: Complexity shift from complex financial markets to complex customer needs



4.4 Discussion

4.4.1 Complexity as Indispensable for Investment Services

The first major contribution of this paper is that is takes up calls for more organization theory research on financial markets (Davis & Marquis, 2005; Marti & Scherer, 2014; Munir, 2011). While organization theorists have studied the role of institutional investors (Davis & Thompson, 1994; Gond & Piani, 2013) and securities analysts (Beunza & Garud, 2007; Rao, et al., 2001) in a finance-centered economy, organization theorists have not analyzed the role of investment advisors. The puzzle around investment advisors is why they can justify their role despite clear evidence that these services, on average, do not pay of for their customers financially (French, 2008; Malkiel, 1973).

Our findings show that complexity plays a key role for investment advisors. To sell their services, investment advisors have to position their services in relation to a source of complexity. For mainstream investment advisors, financial markets are a source of complexity that legitimizes their services. Future research should analyze how narratives of complexity relate to complex financial products, which help investment firms create higher margins for their services (Célérier & Vallée, 2013). It may be that mainstream investment

advisors use the complex market story to convince their customers that they need complex products to deal with complex markets.

Interestingly, investment advisors at the sustainable investment-focused firms also need a source of complexity, and they create this complexity by highlighting how complex the interests of customers are. This suggests that all investment firms depend on some type of "complexity" to sell financial services and products.

4.4.2 The Role of Narratives for the Legitimacy and Mainstreaming of Sustainable Investing

The second major contribution of this paper is to the emerging literature on sustainable investing (Markowitz, et al., 2012; Slager, et al., 2012). Our study provides insights on what advisors think is "right and wrong" (Pentland, 1999, p. 713) about sustainable investing. We thus show how advisors make sense of their role in that context and of how to work with their customers (Haack, et al., 2012). Since advisors in their work either strengthen or weaken the legitimacy and market success of sustainable investing, we explore how investment firms create legitimacy at this "micro levels of analysis" (Lok, 2010, p. 1305). Future research should extend this micro level work beyond the prevalent focus on the establishment of legitimacy of sustainable investing at the field level (see also Arjaliès, 2010; Delmas, Etzion, & Nairn-Birch, 2013) or the firm level (Markowitz, Cobb & Hedley, (2012, p. 3).

Our analysis of the narratives of investment advisors has implications for the mainstreaming of sustainable investing (e.g., Dunfee, 2003). Our findings on how investment advisors' narratives either constrain or enable sustainable investing suggest that selling sustainable investing products will only be possible for investment firms that develop certain narratives. It appears that investment advisors at sustainable investing leaders operate in their narrative based on the shift of complexity away from financial markets and because "we don't call ourselves bankers" (Lead_B4). This would mean that these stories and narratives are part of the value chain of sustainable investing leaders and cannot be easily transferred to sustainable investing laggards (Porter, 1985).

Thus, our findings suggest that investment firms that do not specialize on sustainable investing are in a poor position to sell sustainable investing products because their advisors cannot credibly use those narratives that help to legitimize sustainable investing. Put differently, firms where advisors in their narrative focus on complex markets, simplistic clients and their own role as trusted salespeople, might face insurmountable cognitive barriers or cognitive dissonance to embrace sustainable investing as an opportunity (Festinger, 1957).

This finding helps explain why many investment firms fail to sell sustainable investing products and services despite investors' substantial interest in sustainable investing (Peifer, 2012; Schrader, 2006), and provides fertile ground for further scholarly inquiry. Future research could compare our results to the context of other geographical areas and develop statistically derived robust insights from work with larger samples. We encourage exploring the extend to which narratives constitute a major impediment to the mainstreaming of sustainable investing, which would then remain a niche activity for specialized sustainable investing firms, or avenues for mainstream incumbents to adapt their internal narratives or circumvent the mechanisms identified in this study.

4.5 Conclusion

We investigate the narratives investments advisors of wealthy private investors employ in the context of sustainable investing. Our main contributions are, first, to the emerging organization theory literature on financial markets, and, second, to research on sustainable investing.

Investment advisors are mediators between their customers and their bank. They play a key role in a finance-centered economy, especially in regard to rather new and complex approaches such as sustainable investing. Thus, sustainable investing is a business opportunity for advisors. Many of their customers are interested in sustainable investing, while the financial value of traditional advisory services for customers is challenged. The low relative market share of sustainable investing indicates, however, that advisors largely neglect this business opportunity.

We find answers for this conundrum by identifying two narratives and their underlying stories that either support or limit investment advisors' appreciation of sustainable investing. Advisors at firms that lag in sustainable investing describe financial markets as highly complex, and their customers as simplistic, with sustainable investing a *nuisance* that they reject to engage with. In contrast, advisors at leading firms use a narrative that describes financial markets as excessively and unnecessarily complicated, highlights the complex needs of customers, and positions sustainable investing as the back-to-the-roots solution, or *savior*, for many problems of financial markets.

As such, we document a complexity shift in investment advisors' narratives from complex financial markets to complex customer needs. These findings suggest that all types

of investment firms, including those focused on sustainable investments, depend on "complexity" to sell financial services and products.

Further, our findings indicate that the narratives that are currently predominant in many large 'mainstream' investment firms that are not focused on sustainable investing are incompatible with sustainable investing. If sustainable investing, then, is limited to specialized firms, sustainable investing may remain a niche product, despite its financial and non-financial merits for customers, advisors, society and the natural environment.

Considering the substantial potential significance of narratives for the field of organizational theory in the context of financial markets and sustainable investing, we hope to encourage further research in this regard. For example, beyond tests and expansions of our findings to other samples, the extend to which sustainable investing can or does become mainstream due to client-focused regulation or societal demands provides fertile ground for further research; but that is, of course, yet another story.

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Chapter III – Appendix

5 Curriculum Vitae

1. Personal data

Birth date and place: March 14, 1983 in Berlin, Germany

2. Education

09.2011-04.2015	*PhD studies*; Department of Banking and Finance, University of Zurich, Switzerland
09.2007-09.2008	*Master of Business Administration*; University of St. Gallen, Switzerland; Nanyang Technological University, Singapore
09.*2002-*09.*2005*	*Bachelor of Business Administration;* OTA University, Germany; Wilfrid Laurier University, Canada

3. Professional background

since 08.2014	*Fellow;* Initiative for Responsible Investment, Harvard University, USA
since 01.2013	*Researcher, Teaching Assistant, Affiliate*; Department of Management, Technology, and Economics, ETH Zurich, Switzerland
since 01.2010	*President;* GreenBuzz Zurich, GreenBuzz Global, Switzerland
since 06.2007	*Consultant;* self-employed - Sustain-Abilities, cCA Zurich GmbH, Germany/Switzerland
12.2008-12.2012	*Senior Sustainability Analyst, Inhouse Consultant;* Bank Vontobel AG, Switzerland
04-10.2008	*Consultant - MBA Intern;* Arthur D. Little, Switzerland
01-04.2008	*Research Assistant - Intern;* AccountAbility, Singapore/UK
06.2006-06.2007	*Project Analyst & Coordinator;* Ministry of Health/HEABC, Canada
02-04.2006	*CEO Asia-Pacific Assistant - Intern;* Bosch Power Tools, China
06-12.2005	*Material & Customer Planner - BBA Intern;* Bosch Body Systems, Belgium

6 Declarations

The work submitted in this dissertation is the result of my own work and, in the case of the submitted research papers, mine as well as my co-authors' investigation, except where otherwise stated. This work has not already been accepted for any degree, and is also not being concurrently submitted for any other degree.

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Zurich, April 2015 Falko Paetzold